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**AUDIT REPORT ON
CARE'S PL-480, TITLE II PROGRAM IN INDIA
STATES OF KARNATAKA, MAHARASHTRA,
AND WEST BENGAL**

AUDIT REPORT NO. 5-386-91-02-N

APRIL 2, 1991

CARE ensured that approximately \$40 million in food was provided to the needy in the three states reviewed, that most parts of the program were properly managed, and that feeding center workers were operating towards achievement of program objectives. However, improvements could be made to help ensure accurate recording of commodity distributions, avoidance of long-term feeding interruptions, proper reporting of losses, adequate oversight reviews, and safe commodity storage.

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

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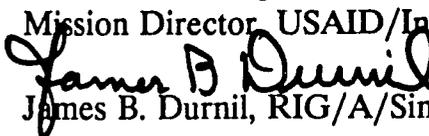
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April 2, 1991

MEMORANDUM FOR: Walter G. Bollinger

Mission Director, USAID/India

FROM:


James B. Durnil, RIG/A/Singapore

SUBJECT:

Audit of CARE's Public Law 480, Title II Program In India -
States of Karnataka, Maharashtra, and West Bengal

Audit Report No. 5-386-91-02-N

The enclosed Price Waterhouse audit report presents the results of a financial audit of the **Cooperative American Relief Everywhere (CARE) Program** for three states in India. The main audit objectives were to determine if commodity statements for fiscal years 1988 and 1989 were accurate, internal controls were adequate, and compliance requirements were met. While the CARE Program in India operates in ten states, the Mission requested, primarily due to funding limitations, that the review be limited to three states. We selected the states of Karnataka, Maharashtra, and West Bengal.

Under the Public Law 480, Title II Program, the U.S. Government donates food commodities to India to **combat malnutrition, promote economic and community development, and provide food for the needy**. After the CARE commodities are received in India, the commodities are despatched to the ten participating states for further distributions to blocks/circles and then to smaller organizations called feeding centers for final distribution to the beneficiaries. For the two-years covered by the audit, CARE reported that 86,372 metric tons of commodities, valued at \$37.8 million, were distributed to about 5.1 million beneficiaries in the three states reviewed.

Two program categories were operated by CARE—one called the **Integrated Child Development Services (ICDS)** and the other, the **Mid-Day Meal**. The ICDS program provides various health care benefits, such as supplementary feedings, immunization, health check-up, referral services, nutrition and health education, and pre-school education. Targeted beneficiaries are pre-school children and pregnant and lactating mothers. The Mid-Day-Meal program provides supplementary feedings of primary school children (6 to 12 years old). While the Government of India operates programs in 25 states and 7 territories, CARE only participates in the supplementary feeding operations in 10 of the states. All other locations and program aspects are handled by the various governmental elements in India.

Price Waterhouse concluded that **CARE had established a comprehensive system for distributing the commodities and that the commodities were reaching the needy**. However, commodity statements could be more reliable, internal controls could be improved, compliance with requirements could be increased, and known problems could be more fully corrected. An overall summary of the audit is provided in Part II of the report, and various opinions are provided in Parts III, IV, V, and VI. A detailed discussion on the following three interrelated findings is found in Part VII:

- **Commodity distributions** were not always recorded properly, feeding interruptions were too frequent, losses were not accurately reported, and attendance/inventory records were questionable.
- **Program oversight** required substantial improvement. The oversight reviews which were performed were insufficient in number, undocumented, and incomplete in certain important aspects. Also, CARE did not always ensure that known problems disclosed in prior reviews were corrected.
- **Commodities storage** required improvements at certain block/circle locations. Storage problems included improper dunnage/segregation/stacking, poor rotation, damaged containers, and infestation.

Price Waterhouse made 15 recommendations. CARE officials orally stated that they agreed with the recommendations but their written comments to the draft report either did not address the recommendations or in some cases indicated disagreement. CARE's written comments are summarized in Part II of the report and after each finding. Additional auditor's comments are supplied addressing CARE's written response after each finding. CARE's comments are presented in their entirety in Appendix E.

USAID/India officials provided written comments to the draft report and endorsed the audit conclusion that CARE had provided food to the needy and that most parts of the program were properly managed. The officials also stated that to some extent certain problems would always exist, suggested a few wording changes and the elimination of the first recommendation on page 28, and requested adding a recommendation to establish loss reporting thresholds. Their comments are included in their entirety in Appendix F. While we agree that there will always be some problems, the ones described in the three findings exceeded what could be considered an acceptable level. The suggested wording changes and the elimination of the one recommendation were not made because they were not consistent with the auditor's observations. Also, while we support the concept of loss reporting thresholds, the feeding centers did not complain about the lack of thresholds so it was not mentioned in the report.

We also observed that no oversight was being provided to the non-feeding aspects of the ICDS program. In its Multi-Year Operational Plan, CARE stated that while it would concentrate monitoring efforts on the supplementary feedings operations, it would still monitor other inputs to the ICDS program and "make suitable recommendations to the concerned governments." However, CARE notified the Mission, in a separate letter, that in order for its staff to adequately monitor the feeding operations, the other health aspects of the ICDS program would not be reviewed.

As was mentioned in a recent report on USAID/India's Management of the Food Program (Audit Report No. 5-386-90-12), the Mission performed only two field reviews of CARE's operation and made only five "trouble shooting" visits during a recent three-year period. Thus, neither CARE nor the Mission was providing any oversight to the non-feeding aspects of the ICDS program. Instead, complete reliance was placed on various Indian governmental elements to adequately accomplish the other health aspects. If the Mission is going to continue to report that the ICDS is a Maternal Child Health program, arrangements should be made to provide necessary oversight or at least occasional evaluations of all health aspects which are being provided.

We believe the recommendations made by Price Waterhouse should be formally addressed by CARE and ask that USAID/India work with CARE to initiate corrective measures. We are therefore making the following four recommendations which will be included in the Agency's Audit Follow-up and Resolution system.

Recommendations

We recommend that USAID/India:

1. Request CARE to formally respond to each Price Waterhouse audit recommendation and then negotiate an acceptable plan of corrective action.
2. Request CARE to more accurately report actual operations, including losses, and work with the Government of India to resolve distribution problems which cause long-term feeding interruptions.
3. Review CARE's oversight activities and ensure that comprehensive monitoring reviews are performed by CARE and the results of these reviews are thoroughly documented.
4. Arrange for oversight/evaluation of the important ICDS program aspects or report that neither the Mission nor CARE is involved in the non-feeding aspects of the program.

The above recommendations have been discussed with Mission officials who indicated that certain actions have been or will be taken which will help correct the problems. Accordingly, the recommendations should probably be resolved as soon as we receive the Mission's written response and will be closed upon completion of corrective actions.

I appreciate the courtesies and cooperation USAID/India and CARE officials extended to the Price Waterhouse auditors and our staff during the course of this audit. We request your written comments to this report and each of the four recommendations within 30 days.

**PRICE WATERHOUSE REPORT ON
NON-FEDERAL AUDIT OF CARE - INDIA
PL-480, TITLE II PROGRAM IN THE STATES OF
KARNATAKA, MAHARASHTRA, AND WEST BENGAL
FOR FISCAL YEARS 1988 AND 1989**

**NON-FEDERAL AUDIT OF CARE - INDIA
PL - 480, TITLE II PROGRAM IN THE STATES OF
KARNATAKA, MAHARASHTRA, AND WEST BENGAL**

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Price Waterhouse

March 20, 1991

Mr. James B. Durnil
Regional Inspector General/Audit/Singapore,
U.S. Agency for International Development
16 Raffles Quay, #31-01
Hong Leong Building
Singapore 0104

Dear Mr. Durnil,

NON-FEDERAL AUDIT OF CARE PL-480, TITLE II PROGRAM IN INDIA - STATES OF KARNATAKA, MAHARASHTRA, AND WEST BENGAL

This report presents the results of the audit of the CARE PL-480, Title II Program in the states of Karnataka, Maharashtra, and West Bengal.

We concluded that in the three states reviewed, CARE had generally ensured that the food was being provided to the needy. However, we noted various problems which needed corrective actions to improve program accountability.

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

The comments received from CARE officials are summarized after each finding and are presented in their entirety in Appendix E. In response to these comments, we have provided additional information under the caption "Auditor's Comments" for each of the findings in Part VII.

Mission officials indicated that while improvements were possible, record-keeping and other problems occurring at the feeding centers would always exist to some extent. The Mission's response is presented in its entirety in Appendix F.

Yours faithfully,



**NON-FEDERAL AUDIT OF CARE - INDIA
PL - 480, TITLE II PROGRAM IN THE STATES OF
KARNATAKA, MAHARASHTRA, AND WEST BENGAL**

PART I - INTRODUCTION

A. Background

USAID/India engaged Price Waterhouse, New Delhi to perform a non-Federal financial audit of the Cooperative American Relief Everywhere (CARE) Public Law 480, Title II Program in three of the ten states in India where CARE operates - Karnataka, Maharashtra, and West Bengal.

Under the Title II Program, the U.S. Government donates food commodities to meet urgent relief requirements, combat malnutrition, promote economic and community development and provide food for the poor and needy. These donated commodities are provided to CARE which operates as a voluntary agency in India under a 1950 INDO-CARE Agreement. As per this agreement, the U.S. commodities are allowed duty-free entry and the Government of India (GOI) provides port clearance, handling, inland transportation, storage, and distribution.

The commodities are shipped free of charge to CARE which at the time of import endorses the bill of lading in favor of an authorized GOI State Agency, thereby making the respective agency responsible for all subsequent commodity handling and distribution to beneficiaries. The commodities are cleared through various Indian ports by GOI-appointed clearing and forwarding agents and then despatched to the ten States where CARE operates. The primary responsibilities of CARE are:

- Ensuring that commodities are properly distributed and accounted for in conformity with A.I.D. Handbook 9 and, in particular, Regulation 11.
- Monitoring food usage and performing end use checks.
- Liaising with GOI agencies to resolve problems and to improve the Program.

There are two main program categories—Integrated Child Development Services (ICDS) and Mid-Day Meals (MDM).

- The ICDS program is designed for pre-school children (0-6 years) and pregnant and lactating mothers. This program is akin to the Maternal Child Health (MCH) program under A.I.D. Handbook 9 and primarily utilizes corn soya blend and salad oil as the two commodities. In addition to the food benefit, the ICDS program provides for immunizations, nutrition and growth monitoring, and other health care activity. However, in 1988, CARE notified USAID/India that it was ceasing oversight activities

over the non-feeding aspects of the program and complete reliance was placed thereafter on the GOI to adequately provide these benefits and perform the related oversight function. Therefore, CARE took responsibilities for only the feeding aspect of the ICDS program.

- The MDM program is for primary school children (6-12 years) and the commodities used are bulgur wheat and salad oil. This program is being phased out and by 1992 it is expected to be completely eliminated.

The following chart illustrates how the commodities flow from the ports to the final distribution point (feeding centers) in the three states reviewed.

<u>Activity</u>	<u>STATE</u>		
	<u>Karnataka</u>	<u>Maharashtra</u>	<u>West Bengal</u>
Port	Madras	Bombay	Calcutta
Primary storage	Three regional warehouses.	Clearing agents warehouses at Bombay and main warehouse near Bombay.	Clearing agents warehouses.
Processing units	-	Two processing units, one - each in eastern and western Maharashtra.	-
In-country storage	ICDS Blocks and MDM Circles godowns.	No MDM program. For ICDS six godowns in two districts.	ICDS Blocks and MDM Circles godowns.
Processing Kitchens	Central and mini-kitchens for MDM program.	-	-
Feeding Centers	ICDS-Anganwadi Center MDM-Primary Schools.	Anganwadi Centers generally receive processed commodities directly from processing units.	ICDS-Anganwadi Center MDM-Primary Schools.

A.I.D. Handbook 9, Regulation 11, requires CARE to provide supervisory personnel to effectively implement, control, and evaluate the Title II activities and to make reviews, including end use checks. Regulation 11 holds CARE responsible for improperly distributed commodities through any act or omission. It requires that CARE pay the U.S. the value of commodities lost, damaged, or misused unless it is determined by A.I.D. that such loss could not have been prevented by CARE under normal circumstances with reasonable care.

During the two-year period (October 1, 1987 to September 30, 1989) covered by this audit, CARE received shipments of around \$102 million. The three states audited out of the 10 states in which CARE operates in India received approximately 35 percent of these commodities. In addition, a sizeable inventory of commodities was carried over from the prior period.

B. Audit Objectives and Scope

The audit objectives were to determine whether (1) CARE's commodity reports presented fairly the results of operations in accordance with generally accepted accounting principles; (2) CARE and the related Government Agencies established adequate internal controls over the operations; (3) CARE and its related Government Agencies complied with applicable laws, regulations, and agreement provisions; and (4) adequate actions were taken to rectify problems identified in previous audits and reviews conducted by the A.I.D. Office of the Inspector General and CARE's external and internal auditors.

The audit covered operations at CARE's office in New Delhi and three of the ten states Karnataka, Maharashtra, and West Bengal. Within the three states, the audit covered activities at various program levels as follows:

<u>Activity/Location</u>	<u>Numbers</u>			
	<u>Covered by Audit</u>		<u>In Program</u>	
	<u>ICDS</u>	<u>MDM</u>	<u>ICDS</u>	<u>MDM</u>
Districts				
Karnataka	6	4	10	15
Maharashtra	5	-	6	-
West Bengal	8	2	16	15
	<u>19</u>	<u>6</u>	<u>32</u>	<u>30</u>
Processing Units (Maharashtra)	<u>2</u>	<u>-</u>	<u>2</u>	<u>-</u>
ICDS Blocks and MDM Circles				
Karnataka	12	8	58	110
Maharashtra	19	-	48	-
West Bengal	18	8	123	167
	<u>49</u>	<u>16</u>	<u>229</u>	<u>277</u>
Central and mini kitchens (Karnataka)	<u>-</u>	<u>10</u>	<u>-</u>	<u>102</u>
Feeding Centers				
Karnataka	59	46	8,653	5,605
Maharashtra	117	-	7,108	-
West Bengal	78	19	15,716	4,199
	<u>254</u>	<u>65</u>	<u>31,477</u>	<u>9,804</u>

The criteria followed for selecting the locations for field review included earlier review/internal audit findings, beneficiary levels, accessibility, and past history of operations. This effort was sufficient, in our opinion, to provide an adequate level of audit evidence in the three states audited. In addition, the audit covered observation of CARE physical inventory of food commodities (June/July 1990) at certain locations. The locations visited for this purpose were 36 ICDS blocks, 28 MDM circles, and 12 central and mini kitchens in the states of Karnataka and West Bengal.

The audit covered records of fiscal years 1988 and 1989 and also covered 1990 wherever considered necessary for observing Program activity and examining related records as practicable. The results of the reviews of Program implementation practices, made during April through October 1990, form an important part of the audit observations and were considered in formulating an opinion on operations and reports for fiscal years 1988 and 1989.

The audit was performed in accordance with U.S. Government Auditing Standards and accordingly included such tests of the records and such other auditing procedures as we considered necessary to accomplish the audit objectives.

**NON-FEDERAL AUDIT OF CARE - INDIA
PL - 480, TITLE II PROGRAM IN THE STATES OF
KARNATAKA, MAHARASHTRA, AND WEST BENGAL**

PART II - SUMMARY RESULTS OF AUDIT

CARE established a system for monitoring and reviewing the port clearance, storage, and distribution of Title II commodities by the recipient State Government agencies. Within just the three states covered by this audit, over 41,000 feeding centers were feeding hundreds of thousands needy, mostly children, everyday. Our reviews of these operations at various levels of the Program indicated that CARE had ensured that food (valued at approximately \$40 million in the three states) was being provided to the needy in line with A.I.D. requirements, that most parts of the Program were being properly managed by many dedicated CARE personnel, and that feeding center workers were operating towards achievement of Program objectives. The reviews, however, did disclose various problems which needed corrective action to improve program accountability.

As part of CARE's reporting requirements, two important commodity accountability statements are prepared to provide management with information about the distributions—the Commodity Status Report and the Recipient Status Report. The reports for fiscal years 1988 and 1989 which were submitted to the Mission to account for commodities and to show operational results pertaining to the States of Karnataka, Maharashtra, and West Bengal have been summarized and included in Appendices A and B of this report. We concluded that:

- The Commodity Status Reports which shows the commodities received by the ICDS blocks and MDM circles and distributed to the feeding centers, were free of material misstatement except to the extent of adjustments which may be required for unreported losses, inventory in-transit, and certain inventories remaining on hand but accounted for as distributed (see Part III).
- The Recipient Status Reports are estimations of the number of beneficiaries covered by the Programs and the quantities of commodities utilized, calculated on the basis of information received from a sample of feeding centers. The audit revealed that such calculations were, in certain instances, based upon inaccurate sample data, the effects of which we were unable to adequately relate to the information reported by CARE. Also, the evidence supporting the estimate calculations for fiscal year 1988 was no longer available. Since CARE's records did not permit the application of other audit procedures, it was not possible for us to express an opinion on such estimates (see Part IV).

These two status reports and the issues associated therewith are discussed in Part VII of this report. We also concluded that internal controls (see Part V) and compliance with applicable requirements (see Part VI) needed improvement. We noted that certain locations reported information so as to make sure the commodities recorded as being

received plus the inventory on hand reconciled with the records showing distributions to the "targeted" beneficiaries at the approved ration rates. The supporting records in such cases appeared to have been prepared without due regard to actual operations. In addition to this, the audit revealed various other problems.

For presentation purposes, the findings, which are very interrelated, have been divided into the three different areas summarized below:

- Commodity distributions were not always recorded properly, feeding interruptions were too frequent, losses were not accurately reported, and attendance/inventory records were questionable (see Finding A).
- Program oversight, a prime CARE responsibility, required substantial improvement to make reviews more effective and reliable. The reviews were insufficient in number, undocumented, and incomplete in certain important aspects. Also, CARE did not always assure that known problems disclosed in prior reviews were corrected (see Finding B).
- Commodities storage procedures required improvements at certain block/circle locations. Storage problems included improper dunnage/segregation/stacking, poor rotation, unrepaired containers, and infestation (see Finding C).

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

In response to the draft report in general, CARE officials stated that they were disappointed that this summary section did not include more favorable comments about their operations. They believed more positive comments should have been included because we had expressed them elsewhere. The officials did state that they appreciated the cooperation and professionalism of the audit team as well as the opportunity to comment on the various findings prior to finalization of the audit report. However, although CARE officials orally stated they agreed with the 15 recommendations which we made to correct the problems, their written response to the report does not indicate agreement. Therefore, it is not clear at this time whether the officials agreed and what actions, if any, they plan on taking in response to these recommendations.

The written comments CARE provided are summarized after each finding followed by additional auditor's comments. CARE's comments are also presented in their entirety in Appendix E. Mission comments were limited to agreeing that while improvements were possible, the record-keeping and other problems occurring at the village level would always exist to some extent and that the overriding objective to ensure that the food reaches the intended beneficiaries was being achieved. The Mission also made certain suggestions for modifying a few paragraphs in the report concerning commodity distribution and loss reporting problems. Their comments are presented in Appendix F. We fully considered all of these comments in preparing this final report.

Price Waterhouse

NON-FEDERAL AUDIT OF CARE - INDIA PL - 480, TITLE II PROGRAM IN THE STATES OF KARNATAKA, MAHARASHTRA, AND WEST BENGAL

PART III - INDEPENDENT AUDITORS' OPINION ON COMMODITY STATUS REPORTS

We have audited the Commodity Status Reports of CARE PL-480, Title II Program in the states of Karnataka, Maharashtra, and West Bengal for fiscal years 1988 and 1989 (as summarized in Appendix A) in accordance with the Audit Objectives and Scope (Part I). The preparation of these Commodity Status Reports is the responsibility of CARE, and it is our responsibility to express an opinion thereon based on our audit.

We conducted our audit in accordance with generally accepted auditing standards. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the Commodity Status Reports are free of material misstatement. An audit includes examining on a test basis evidence supporting the quantities and other disclosures in the commodity status reports. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall Commodity Status Report presentation. We believe our audit provided a reasonable basis for our opinion.

Certain significant audit findings listed below and described in greater detail in Findings and Recommendations (Part VII) affect the information reported in the Commodity Status Reports for the fiscal years 1988 and 1989. The extent to which these findings impacted on the reports could not, however, be quantified by us. These findings are:

- Unreported losses and timing differences pertaining to reported losses—both at block/circle and feeding center levels.
- Unexplained differences between quantities issued by the blocks/circles and those acknowledged as received by the feeding centers.
- Inventory remaining in-transit, at the end of the fiscal years, between blocks/circles and feeding centers but not considered in the Commodity Status Reports.
- Inventory on hand, at the end of the fiscal year, at central/mini kitchens and certain other locations which were disclosed in the Commodity Status Reports as distributed.

In our opinion, except for the matters set out in the preceding paragraph and subject to any adjustments which might arise therefrom, the Commodity Status Reports referred to in the first paragraph above present fairly the commodity status for fiscal years 1988 and 1989 in all material respects and in conformity with generally accepted accounting principles.

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

New Delhi
November 5, 1990

Kevin W. Walker

Price Waterhouse

NON-FEDERAL AUDIT OF CARE - INDIA PL - 480, TITLE II PROGRAM IN THE STATES OF KARNATAKA, MAHARASHTRA, AND WEST BENGAL

PART IV - INDEPENDENT AUDITORS' OPINION ON RECIPIENT STATUS REPORTS

We were engaged to audit the Recipient Status Reports of CARE PL-480, Title II Program in the states of Karnataka, Maharashtra, and West Bengal for fiscal years 1988 and 1989 (as summarized in Appendix B) in accordance with the Audit Objectives and Scope (Part I). The preparation of these Recipient Status Reports is the responsibility of CARE.

As stated in the Summary Results of Audit (Part II) and the detailed findings (Part VII), the Recipient Status Reports are estimates of the number of beneficiaries covered by the programs and the quantities of commodities utilized, calculated on the basis of sample information of certain blocks/circles and their related feeding centers. However, CARE did not report Recipient Status Report information for the MDM program for fiscal year 1988 and the evidence supporting the ICDS program estimates for that year was no longer available.

Our examination also raised various questions concerning commodity distributions and accountability, reporting of commodity losses, recording of attendance and inventory information, quality of CARE's oversight operations, and use of certain inaccurate data for the purpose of estimating the Recipient Status Reports.

In view of the matters set out in the preceding paragraphs, it was not possible for us to obtain adequate assurance as to the reliability of the Recipient Status Report information reported during fiscal years 1988 and 1989, and as in the circumstances we were not able to apply other auditing procedures to satisfy ourselves as to the reliability of these reports, the scope of our work was not sufficient to enable us to express, and we do not express an opinion on these reports.

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

New Delhi
November 5, 1990



Price Waterhouse

NON-FEDERAL AUDIT OF CARE - INDIA PL - 480, TITLE II PROGRAM IN THE STATES OF KARNATAKA, MAHARASHTRA, AND WEST BENGAL

PART V - INDEPENDENT AUDITORS' OPINION ON INTERNAL ACCOUNTING CONTROLS

We have carried out a financial non-Federal audit of the commodity accountability reports (Commodity Status Reports and Recipient Status Reports) of the CARE PL-480, Title II Program in the states Karnataka, Maharashtra, and West Bengal for the fiscal years 1988 and 1989 and have issued our report thereon dated November 5, 1990. As part of our examination, we have made a study and evaluation of CARE's system of internal accounting controls to the extent we considered necessary to evaluate the system as required by the generally accepted auditing standards and the U.S. Government Auditing Standards. The purpose of our study and evaluation was to determine the nature, timing, and extent of the auditing procedures necessary for expressing an opinion on the commodity accountability reports. For the purpose of this report, we have classified the significant internal accounting controls evaluated as (i) Commodity Distributions and Accountability, (ii) Program Oversight, and (iii) Commodity Warehousing. The scope of our work was limited to the examination of the commodity accountability reports of CARE in the three states mentioned above.

The management of CARE is responsible for establishing and maintaining a system of internal accounting control. In fulfilling this responsibility, estimates and judgments by management are required to assess the expected benefits and related costs of control procedures. The objectives of a system are to provide management with reasonable, but not absolute, assurance that assets are safeguarded against loss from unauthorized use or disposition, and that transactions are executed in accordance with management's authorization and recorded properly to permit the preparation of the commodity accountability reports in accordance with generally accepted accounting principles.

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

Our study and evaluation made for the limited purpose, described in the first paragraph, disclosed material weaknesses in the system of internal accounting control as discussed in the Findings and Recommendations (Part VII). These conditions, in our opinion, result in more than a low risk that errors or irregularities, that could be material in relation to the commodity accountability reports, may occur and not be detected within a timely period. Accordingly, we do not express an opinion on the system of internal accounting controls of CARE taken as a whole.

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

New Delhi
November 5, 1990

Rice Walker

Price Waterhouse

NON-FEDERAL AUDIT OF CARE - INDIA PL - 480, TITLE II PROGRAM IN THE STATES OF KARNATAKA, MAHARASHTRA, AND WEST BENGAL

PART VI - INDEPENDENT AUDITORS' OPINION ON COMPLIANCE WITH LAWS AND REGULATIONS

We have carried out a financial non-Federal audit of the commodity accountability reports (Commodity Status Reports and Recipient Status Reports) of the CARE PL-480, Title II Program in the states of Karnataka, Maharashtra, and West Bengal for fiscal years 1988 and 1989 and have issued our report thereon dated November 5, 1990.

We conducted our audit, conforming to the Audit Objectives and Scope (Part I), in accordance with generally accepted auditing standards and U.S. Government Auditing Standards. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the Commodity and Recipient Status Reports are free of material misstatement.

Compliance with laws, regulations, and A.I.D. Handbook 9 (Regulation 11) applicable to CARE is the responsibility of CARE's management. As part of obtaining reasonable assurance about whether the commodity accountability reports are free of material misstatement, we performed tests of CARE's compliance with certain provisions of law, regulations, and A.I.D. Handbook 9 (Regulation 11). However, our objective was not to solely provide an opinion on overall compliance with such provisions.

Material instances of noncompliance are failures to follow requirements, or violations of prohibitions, contained in laws, regulations, and A.I.D. Handbook 9 (Regulation 11) that cause us to conclude that the aggregation of the misstatements resulting from those failures or violations is material to the commodity accountability reports. The results of our tests of compliance disclosed material instances of noncompliance whereby CARE had not sufficiently ensured that:

- The records and sample data used for preparing Recipient Status Reports were reasonably accurate.
- The timing, frequency, and quality of program oversight was adequate.

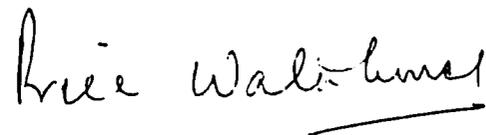
- Loss reporting procedures were followed.
- Commodities stated as distributed had been delivered on a timely basis.
- Approved ration rates had been followed.
- Attendance and related inventory records reflected actual operations.

We considered these material instances of noncompliance in forming our opinion on whether CARE's commodity accountability reports for 1988 and 1989 fiscal years are presented fairly, in all material respects, in conformity with generally accepted accounting principles and this report does not affect our report thereon.

Except, as described above, the results of our tests of compliance indicate that, with respect to the items tested, CARE complied in all material respects with the provisions referred to in the third paragraph of this report. With respect to items not tested, nothing came to our attention that caused us to believe that CARE had not complied in all material respects with those provisions.

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

New Delhi
November 5, 1990



**NON-FEDERAL AUDIT OF CARE - INDIA
PL - 480 TITLE II PROGRAM IN THE STATES OF
KARNATAKA, MAHARASHTRA, AND WEST BENGAL**

PART VII - FINDINGS AND RECOMMENDATIONS

A. COMMODITY DISTRIBUTIONS AND ACCOUNTABILITY

Field visits to 319 feeding centers to observe food distributions and test related records disclosed that while commodities were generally being distributed to the needy, the records required substantial improvements if they were to reflect actual operations. The amount of commodities distributed was not always properly recorded, feeding interruptions were too frequent, attendance records did not support distributions as reflected by the stock records, and losses were not being reported in accordance with the requirements. As a result, the targeted beneficiaries did not receive the proper amount of commodities, the extent of losses could not be reasonably assessed, absenteeism was not recorded, and the accuracy of attendance and inventory records was questionable. These conditions, as well as certain other problems, prevented us from determining the extent to which the Commodity and Recipient Status Reports were accurate/reliable.

Discussion

CARE is responsible for ensuring that the donated commodities reach the intended beneficiaries and that the reports on the distribution of these commodities accurately reflect operations. While the reviews at 65 blocks and 319 feeding centers confirmed that food was generally being distributed, we noted certain aspects where improvements need to be made. These problems also indicate internal control and compliance deficiencies, especially when reviewed in their totality. All of the points are very interrelated but for presentation purposes, they have been separated into the five areas discussed in the following sections.

Commodity Distribution. The methods and procedures used to distribute commodities needed certain improvements. The present system did not fully ensure that beneficiaries received the correct amount of food. Presently, the basis for drawing dry rations differ at various feeding centers. At some centers, it was on the basis of previous day's attendance, while at others it depended on the number of beneficiaries present by a certain time.

The commodities once cooked were normally distributed among the beneficiaries actually present, irrespective of the numbers for whom the rations were initially drawn. However, despite the resultant dilution of rations given (in cases where the number of beneficiaries attending exceeds the expected number) or the excess distributed (in cases when number of beneficiaries attending is less than the expected number), the inventory records at 30 of the 295 feeding centers where the records were available for review reflected only the numbers of beneficiaries for whom the rations were drawn as opposed to the actual number fed. Examples of this situation are shown below and additional examples are given under the discussion on attendance and inventory records.

<u>Feeding Center</u>	<u>Number of Beneficiaries</u>	
	<u>Rations Drawn</u>	<u>Actual Attendance</u>
Bandhgora C.B.S.	120	160
Ghatna P.S.	125	96
Radhanathpura	65	120

During the audit, various additional problems with commodity distributions were noted. Following are some examples:

- Attendance records at another 42 feeding centers, discussed on pages 23 to 25, did not agree with the number of beneficiaries stated per the inventory records.
- At 11 feeding centers, the rations were not drawn per approved ration rates. For example, the ration drawn during the month at a feeding center was less by approximately 21 kgs CSB and 3 kgs of oil compared to the approved rations. However, the stock records reflected consumption as per approved rates. This problem was further examined by reviewing feeding center reports at the blocks/circles. We noted that at 10 of 58 blocks/circles, other feeding centers had also reported consumption per approved rations rather than based on actual rations drawn.
- Issues of commodities by 14 blocks/circles were not in line with the requirements of feeding centers. Also, commodity flow charts, which determine the basis of distribution, were not available at nine blocks and five circles. This resulted in excess stocks at certain feeding centers while at other centers in the same block/circle feedings were interrupted due to a lack of food. This is illustrated in the following table:

<u>State</u>	<u>Feeding Center</u>	
	<u>Excess Stock</u>	<u>Feeding Interrupted</u>
Karnataka	Kitali	Honsur
Maharashtra	Vaijalpada Mishikhurd	Kardhan Devgachi
West Bengal	Shantipur	Bohara

- At 7 of 78 feeding centers in West Bengal, we noted that there was inappropriate use of commodities. For example, commodities were used in preparing refreshments for guests on occasions like Independence Day or a sports meet. However, the records stated regular distributions were made to the targeted beneficiaries.
- At feeding centers under two blocks in West Bengal, required double rations were not being given to beneficiaries in the ICDS program who were suffering from third and fourth degree malnutrition.
- For the ICDS program, physical presence of mothers and infants (6 months - 3 years) at the center was negligible in all three states. In such cases, cooked food was stated to be taken home by other members of the concerned family, but records showed the enrolled beneficiaries were attending.

The likely effect of these problems raises questions as to the appropriateness of the distributions, the program practices followed, and the reliability of the reports generated. Therefore, we concluded that the records did not reflect actual operations and incorrect rations had been distributed. While this does not mean the commodities were misused (as the needy were receiving the food), it does show that commodities were not distributed or accounted for in accordance with the requirements and that records were generated to present reconciled reports. CARE needs to ensure that records reflect actual operations and distributions are to targeted beneficiaries.

Feeding Interruptions. The food provided by CARE through GOI agencies has become very important to the program beneficiaries. The importance of the food is illustrated in the following pictures showing beneficiaries being fed.





These pictures are representative of the feedings we observed during the course of this review. They show how the Program should be working. However, due to distribution problems and the absence of workers, feedings did not always take place. Although occasional interruptions of a short-term nature (1 or 2 days) are understandable in a Program this size, we noted many long-term interruptions. At 126 of the 319 feeding centers visited, feedings did not take place for more than 15 consecutive days because of non availability of stock at feeding centers in spite of adequate stocks at block/circle or because of the absence of workers at the feeding center. Examples of some feeding interruptions are as follows:

<u>State</u>	<u>Feeding Center</u>	<u>Interruption - Months</u>
Karnataka	Harohalhi GMS	June to November 1989 - 6 months
	Bherya HPS	May to December 1988 - 8 months
	Agrahara	March to June 1988 - 4 months
	Kadakola	September 1988 - 1 month
Maharashtra	Midhi	January 1989 - 1 month
	Nimaj	November and December 1989 - 2 months
West Bengal	Mahisar	December 1988 to May 1989 - 6 months
	Nagar 7	December 1988 to May 1989 - 6 months

Without the food, the supplemental feedings cannot take place. However, the beneficiaries often still show up for the feedings in the hope that there will be food. The following pictures illustrate beneficiaries being told there was no food available.



This problem was widespread in both the ICDS and MDM Programs. CARE needs to be much more actively involved in resolving distribution problems.

Reporting Commodity Losses. More management attention needs to be given to ensure losses were properly reported. A.I.D. Handbook 9 and CARE's operational manuals require losses to be accurately reported. The total value of in-country losses reported during the fiscal years 1988 and 1989 was less than two percent in the three states. We believe the actual losses were far more significant. For example, at 17 feeding centers, losses had been removed from the inventory records without being reported to CARE. At the following feeding centers, the stated commodities had been removed from inventory without reporting the loss:

<u>Feeding center</u>	<u>Commodity</u>	<u>Quantity (Kgs)</u>
Munavalli	CSB	23
Basapur	CSB	22
Lingedhalli	CSB/CSM	52
Matihalli HPS	B/W	50
Vishweshwarapura	CSB	23
Dahala Bahadurpur	CSB/CSM	87
Dumrikole 40	CSB/CSM	60
Ghaskola	CSB	52

Other examples of significant unreported losses noted were:

- Commodities were lost due to floods at 58 feeding centers (153 bags CSM) under one block in West Bengal during 1987 but were carried forward as inventory. At the same block, other losses at nine feeding centers (120 bags CSM) awaited explanations and no loss reports had been prepared.
- There were unexplained stock shortages as discussed under attendance and inventory records.

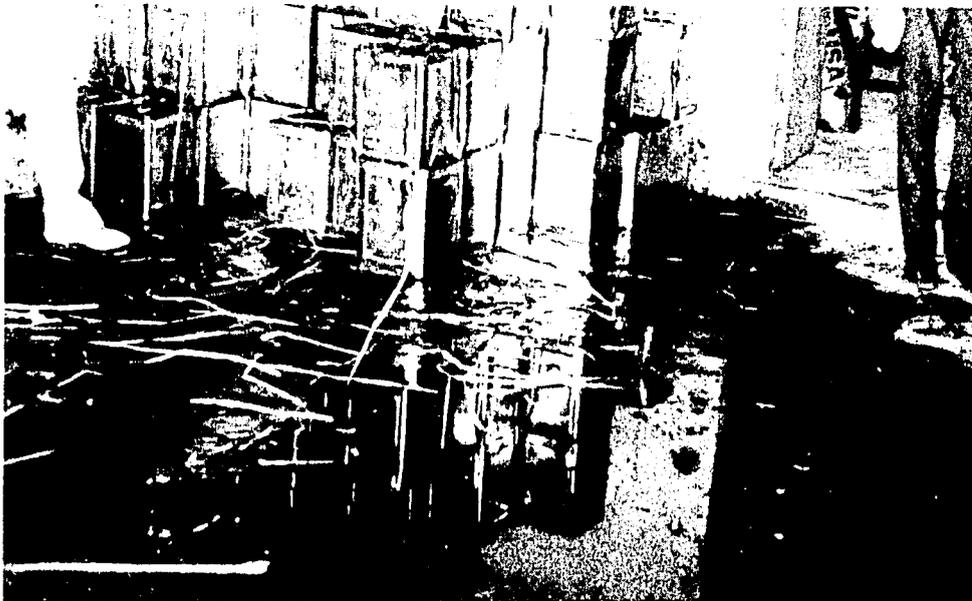
We also found that losses in the three states were generally only reported when CARE field reviewers visited a location. This not only resulted in reporting delays (13 of 26 blocks/circles in West Bengal) but also brought into question whether loss reporting procedures were in fact being followed by the feeding centers not visited by the reviewers (refer Finding B for inadequate frequency of reviews). For example, in West Bengal 20 of 97 feeding centers visited by us were not aware of loss reporting procedures and consequently had adjusted consumption for any losses which may have arisen in the past.

In Maharashtra, there was no system in operation for feeding centers to report losses to the block office so it remained uncertain as to how the block officials exercised control over this aspect. For example, at two blocks, officials were not even aware of

loss reporting procedures and assumed that CARE would be exercising the necessary control over the feeding centers in this regard. Also, in Karnataka, 7 of 20 blocks/circles visited had not reported any losses during the period under audit.

Losses occur for many different reasons and some of these are discussed below:

- Damaged packaging resulting in spillage/leakage were received from transporters but the losses were not reported. This observation is based on review of consignment notes at the blocks in West Bengal where it appeared to be the general practice to include remarks on the consignment notes such as received in "cut and torn"/"leaking" condition without determining and reporting the related loss. Following are pictures of the damaged packages noted but no loss having been reported:



- Short packed commodities were received by blocks/circles but accounted for in standard weights without reporting the shortages.
- Various other storage problems result in losses as illustrated below.



- Unfit commodities were disposed of at certain feeding centers, and receipts from blocks were recorded net of loss, without reporting the loss.
- Infested commodities were received by blocks and issued to feeding centers but only some centers reported losses.

This non-reporting not only contributed to inaccurate records but also prevented CARE and Mission officials from determining correctly the extent of losses occurring and the corrective actions which might be necessary. Additionally, since commodities issued by blocks remained unacknowledged for considerable periods of time and as differences between quantities issued and those acknowledged were not resolved in a timely manner, it was not possible to determine the extent of resultant losses, if any. As discussed on page 26, such differences also impact the Commodity Status Reports.

In view of these instances of losses and the possible cumulative effect of other less significant losses observed during the reviews at the 319 feeding centers (less than one percent of the total number of centers in the three states) and the non observance of loss reporting procedures at certain locations, we were unable to adequately assess the extent of unreported losses. CARE needs to ensure that loss reporting procedures are followed.

Attendance and Inventory Records. Attendance and inventory records examined at blocks/circles and feeding centers did not always reflect actual operations. This occurred because reported information was apparently generated in such a manner so as to ensure records reconciled as opposed to actual operations.

The audit reviewed records at 58 blocks/circles, 10 central/mini kitchens, and 295 feeding centers (the records at 3 blocks/circles and at 10 feeding centers could not be traced while at 4 blocks and at 14 feeding centers they were not available at the location visited). In addition to problems discussed under the preceding discussion on improper distributions and lack of loss reporting that impact on the reliability of inventory and attendance reports, certain other findings which also make these records questionable were noted.

- The number of beneficiaries as per attendance register did not agree with the numbers recorded as fed—per the stock register at 42 feeding centers. As a result, it was not possible to reliably correlate commodity utilization to the number of beneficiaries reported as attending, based on approved ration rates. The table hereunder illustrates the extent to which attendance records were found to be inaccurate at some of the centers:

<u>Feeding Center</u>	<u>Period</u>	<u>Number</u>		<u>Difference</u>
		<u>Reported in Stock Records</u>	<u>Per Attendance Register</u>	
Kunj	March 1988	2,775	2,220	555
	September 1988	2,725	2,325	400
	September 1989	2,700	2,300	400
Pawarpada	August 1989	3,900	2,600	1,300
	July 1989	3,900	3,250	650
	September 1990	3,900	3,480	420
Nawarvadi	June 1989	3,750	3,300	450
Bhramanwada	January 1989	2,750	2,310	440
Dhamangaon	November 1988	4,750	3,990	760
Kundewadi	February 1990	2,750	2,115	635
Khopadi	May 1989	4,180	4,750	(570)
Sonambe	August 1989	5,500	4,620	880
Kodad Khodipada	April 1990	3,750	3,300	450
Nirgude	July 1989	2,760	3,000	(240)
Kutambi	6 days in April 1990	600	*	600
Kupeeri	4 days in May 1988	560	*	560
Joywadi	September 1989	3,000	2,300	700
Vaghachiwadi	4 days August 1989	600	*	600

* Attendance register not marked.

- At 78 of 295 feeding centers, attendance records showed no or minimal absenteeism for considerable periods of time. It was therefore questionable whether the reported information reflected actual operations particularly as, at the time of our visit we noted absenteeism being widespread throughout the program. For example, at a feeding center, attendance marked during fiscal years 1988 and 1989 was for the approved number of beneficiaries (200). However, on the day of our visit, nearly half the beneficiaries were absent. Similarly, at another center, the approved number of beneficiaries, 180, were stated as attending, but on the day of our visit only 129 attended.
- Attendance registers were not maintained at 22 of 65 MDM feeding centers while at another 22 they were not properly maintained. Distributions in such cases were made on the basis of school attendance which could not be correlated to the number of targeted beneficiaries reported as being fed. Also, the reserve list required to be maintained under this program for substituting beneficiaries in the absence of targeted beneficiaries was generally not maintained, and as a result, such beneficiaries were not identified.

- At 5 of 117 feeding centers visited in Maharashtra, it was observed that commodities were handed over to sub-centers based on estimated weekly or fortnightly consumption, while the attendance record at the feeding center showed 100 percent daily attendance. There was no evidence of CARE or block supervisors reviews of these sub-centers.
- Attendance was generally not marked at the time of distribution.
- The quantity of food despatched by central and mini kitchens at 5 of 10 locations visited did not correlate to the number of beneficiaries reported as attending by the feeding centers.

We also verified the physical stock on hand with the records at 110 blocks/circles, 22 central/mini kitchens, two processing units, and 319 feeding centers. All differences remaining unexplained were advised to CARE for follow-up action. No apparent discrepancies were revealed while comparing book balances to records, but adjustments for arithmetical inaccuracies in the stock records at 52 feeding centers, 3 central/mini kitchens, and 19 blocks resulted in unexplained differences. Examples of these are:

<u>Location</u>	<u>Commodity</u>	<u>Balance as Shown by Stock Records (kgs)</u>	<u>Corrected Book Balance (kgs)</u>	<u>Unexplained (Shortage)/ Excess (kgs)</u>
Feeding Centers:				
Hosakodihalli	CSB	34	630.0	(596.0)
	Oil	-	53.0	(53.0)
Bidre	CSB	170	404.0	(234.0)
	Oil	25	53.0	(28.0)
Thoolahalli 'B'	CSB	147	247.0	(100.0)
Bibhadahalli	CSB	59	159.0	(100.0)
Sidegallu	CSB	148	173.0	(25.0)
Manoli III	CSB	418	388.0	30.0
Chulki II	CSB	328	278.0	50.0
Dehnepatilpada	Sukhda	222	377.0	(155.0)
Central/Mini Kitchens:				
K.R. Nager	B/W	-	30.0	(30.0)
Konnanur	B/W	35	-	35.0
Blocks:				
Badami	CSM	23,700	23,875.0	(175.0)
Jamkhandi	Oil	3,675	3,675.5	17.5
Hassan	CSB	22,500	22,525.0	(25.0)

The cumulative effect of adjustments which may arise upon correction of these inaccuracies on the information reported could be significant. Accordingly, CARE needs to ensure that appropriate corrective actions are taken to make the records accurate.

Commodity Reports. The CARE operational manual requires blocks and feeding centers to report both commodity utilization and the number of beneficiaries receiving the food. The various reports are designed to support each other, e.g. number of beneficiaries fed should reconcile with the commodities issued at approved ration rates. Based on this information, the CARE office in New Delhi generates two reports, the Commodity Status Report (quarterly) and the Recipient Status Report (every trimester)—see Appendices A and B. The commodity status report shows the inventory position at block/circle level, including inventory at C&F agents and regional warehouses. This report also states the in-country losses incurred at the ports, in-transit, at blocks/circles, and at the feeding centers. The recipient status reports states the estimated number of recipients reached and commodities consumed.

These are the principal reports submitted to USAID which account for the commodities and show operational results. The Mission uses this information to review and report on overall operations.

In the Commodity Status Report, issues to central/mini kitchens in Karnataka and to processing units in Maharashtra were treated as consumption and stocks on hand at these locations were not included in the Commodity Status Report. In view of the fact that these locations maintain considerable stocks and are not end use locations, stocks at central/mini kitchens, processing units, and the processed food at District Marketing godowns should be included in the Commodity Status Report.

The Commodity Status Reports are also not adjusted for commodities stated as distributed but pending delivery to the feeding centers (in-transit inventory) and in certain cases the quantity acknowledged by the feeding centers was different to the quantity reported as delivered. The problem relating to in-transit inventory was widespread in the Program, and unreconciled differences were noted at 12 of 18 blocks tested. The following table illustrates the questionable information reported:

<u>Feeding Centers</u> <u>No./Name</u>	<u>Commodity</u>	<u>Issues (kgs)</u>	<u>Feeding Center</u> <u>Receipt (kgs)</u>	<u>(Shortage)</u> <u>Excess (kgs)</u>
<u>Karnataka State</u>				
Jalgi L.T.	Oil	21.00	-	(21.00)
Jambagi	Oil	17.50	-	(17.50)
Hullal	CSM	136.00	-	(136.00)
Bomanahalli	CSB	75.00	150.00	75.00
Hanachanahalli	CSB	200.00	150.00	(50.00)
Ralahalli	CSB	125.00	100.00	(25.00)

Maharashtra State

Madgaon K. Pada	Sukhda*	250.00	150.00	(100.00)
Madgaon S. Pada	Sukhda	250.00	150.00	(100.00)
Yenur	Sukhda	175.00	100.00	(75.00)
Dhokari	Sukhda	600.00	350.00	(250.00)

* Processed food.

West Bengal State

No. 12	CSB	75.00	50.00	(25.00)
	Oil	17.46	-	(17.46)
No. 29	Oil/CSM	17.46	50.00	*
No. 49	CSM	150.00	125.00	(25.00)
	Oil	17.46	-	(17.46)
No. 109	CSM	100.00	75.00	(25.00)
	Oil	-	17.46	17.46
No. 140	CSM	125.00	225.00	100.00
	Oil	-	34.52	34.52
No. 159	CSM	250.00	225.00	(25.00)
No. 70	Oil	17.50	25.00	7.50
No. 10	CSB	125.00	56.00	(69.00)

* While the block issued oil, the feeding center acknowledged receipt of CSM.

The Recipient Status Report which is a state-wide estimate of the commodities used and beneficiaries served is based on a sample of feeding centers selected. For fiscal year 1988, the data required for estimating this report was not collected by CARE for the MDM program. Also, for the same year, the computer application software used for ICDS program was no longer available for testing. However, we satisfactorily tested the software used during fiscal year 1989.

In Karnataka and West Bengal, there were various types of errors in the data collected and used in the preparing the Recipient Status Report. The errors comprised of incorrect figures relating to number of beneficiaries, consumption of commodities, and calculation errors at 10 of 10 blocks and 4 of 9 circles examined for confirming the sample data used by CARE. For example, the consumption was considered on the basis of single rations and double rations given were not converted into two single rations, to correctly estimate the commodities provided by the program. Also, in one Block in Karnataka, instead of taking the actual consumption as per feeding center stock register, consumption was calculated based on approved ration rates thereby including erroneous information in the estimates.

Due to the problems associated with the two status reports, as discussed in this finding as well as interrelated problems discussed in other parts of this report, we were unable to conclude whether CARE accounted for the commodities accurately. Consequently, we have qualified our opinion on the Commodity Status Reports and disclaimed our audit opinion on the Recipient Status Reports (Parts III and IV respectively).

Recommendations

We recommend that the Mission require CARE to:

1. Ensure that the correct quantities of food are distributed to the targeted beneficiaries and that an adequate supply of commodities are available through the blocks/circles and intermediary stock locations to the feeding centers.
2. Reduce feeding interruptions and distribution problems by being more actively involved in distribution arrangements.
3. Improve compliance with loss reporting procedures and requirements.
4. Ensure that blocks/circles and feeding centers effect improvements in the maintenance of records for properly reporting actual operations, including absenteeism, and that accurate information is used in the commodity accountability reports.
5. Include the stocks at central/mini kitchens, processing units (unprocessed commodities), and district marketing godowns in the closing balances reported in the Commodity Status Report and also reconcile and report in-transit inventory on a more timely basis.

Comments by CARE and Auditor's Comments

While CARE officials orally stated they agreed with these recommendations, their written comments took issue with each of the five areas discussed. The officials provided the following general comments about this finding:

- " Title II food in CARE-India program is distributed through 141,541 centers. Most of these feeding centers are in rural areas. Conditions in the rural areas are often less than the optimal desired. The poverty and relatively poor infrastructures are naturally linked. We face the dilemma that the neediest people are often in areas with relatively poor transport and storage conditions and also where there is low literacy particularly among workers who are required to maintain the records. The accomplishments and weaknesses need to be put in the perspective of the location of the program.
- " We do not deny that there are some problems in CARE supported programs at some centers and storage points. The program will always need to be worked on and improved. We would point out that the sample of centers visited was very small and it seems that program wide conclusions have been made based on this very small sample."

We believe that the accomplishments as well as the weaknesses were put in perspective and that local conditions were fully considered during this review. Furthermore, the sample size was adequate to support the conclusions being made. Our sample of 319 feeding centers and 65 blocks/circles in three states was far more extensive than CARE's. As shown on page 40, during 16 of CARE's 17 internal reviews performed in the past four years, an average of under seven feeding centers were visited per state. (The one review was excluded because it was for a special purpose.) In contrast, our sample covered an average of over 106 feeding centers per state. Our sample was random and we believe it to be representative of the total operations.

CARE's comments to each of the five areas are summarized below. For ease of comparison, our additional comments are supplied immediately following CARE's statements. The full text of CARE's reply is presented in Appendix E.

CARE's Comments on Commodity Distributions. CARE officials did not seem to think there were any problems with commodity distributions. They stated that different guidelines for drawing rations can be used, that head counts can be deceptive because some beneficiaries are only at the feeding centers at certain times or have the food carried home for them, and that we visited five Anganwadis after the normal working period.

Auditor's Comments. The finding discusses various problems which were not addressed by CARE. Instead, CARE officials believed we misunderstood the applicable guidelines. The numerous situations noted which indicate that records did not reflect actual operations was not dealt with by CARE. Also, the fact that 5 of our 319 visits were after the normal working period does not alter any of the reported findings or the conclusions reached. Consequently, action on CARE's part is needed in this area (refer to Recommendation 1).

CARE's Comments on Feeding Interruptions. CARE officials indicate that feeding interruptions were mostly justified. They stated:

" We agree that avoidable feeding interruptions need to be minimized but there are situations such as illness, transport problems and local disturbances where no one is at fault."

* * *

" We disagree with the auditors' conclusion that 'this problem was widespread in both the ICDS and MDM programs' as CARE and the government have been able to achieve 83% and 87% for MDM and MCH ... and particularly in ICDS the feeding day accomplishment has increased over the years. We believe 87% is a good achievement and will continue to improve."

Auditor's Comments. CARE officials did not address the main problems being discussed. As the finding clearly states that "At 126 of the 316 feeding centers visited, feedings did not take place for more than 15 consecutive days..." In other words, nearly 40 percent of the feeding centers sampled suffered long-term feeding interruptions. This was serious enough in our view to conclude that the problem was widespread in both the ICDS and MDM programs. We realize the commodity distribution, like many other important aspects of the ICDS and MDM programs, are handled by the Government of India. However, this does not absolve CARE of its responsibility to be actively involved in pursuing solutions to distribution and other problems (refer to Recommendation No. 2).

CARE's Comments on Commodity Losses. In reply to this part of the finding, CARE officials stated that losses were generally less than one percent and provided the following comment:

" The losses at the district/block/circles are always reported to CARE either by the concerned state officials or picked up by the CARE FOs [field officers] during their 3 times per year visits. We believe that most losses occur at the intermediate storage points. The losses at the feeding centers are of small quantities. ... there will may be some instances when the losses were not reported to CARE and reduced from the inventory"

" Moreover, in terms of timeliness of reporting, per Regulation 11, Section 211.9, CARE is expected to report the losses to USAID within 90 days from the date the loss is known to CARE. According to our interpretation we are required to take action on the reported losses within that time frame."

The officials also stated that if losses occurred at blocks or districts they would be reported, that slightly infested commodities are not unfit, that short weight commodities received from the USA are reported, and that the issue on reconciled issues needs further clarification but that exceptions noted by the field officer are cleared in a subsequent visit.

Auditor's Comments. CARE officials were correct in pointing out that "reported" losses were generally less than one percent. In fact, this is the point of this section of the finding. We believe that many losses were not being reported as demonstrated in the finding. Various pictures of losses which were not reported were shown. While we are not implying that the extent of such losses was unreasonably high, we are stating that we believe the losses were much greater than reported and that CARE needs to improve compliance with loss reporting procedures. There were also numerous meetings with CARE officials and clarification was provided whenever requested. As to the timeliness of reporting and CARE's interpretation of its responsibility under Regulation 11, we consider it appropriate to mention that unless loss reporting procedures are complied with, unless records reflect actual operations to a much greater extent, and unless adequate oversight (Finding B) is exercised, CARE's responsibilities remain largely unfulfilled (refer to Recommendation 3).

CARE's Comments on Attendance and Inventory Records. CARE officials did not believe there was a problem with the records and stated that the records at blocks, circles, and feeding centers generally reflected actual operations and any differences are usually rectified.

Auditor's Comments. The finding clearly demonstrated that the records did not reflect actual operations. Problems were noted with distributions, loss reporting, attendance reporting, absenteeism reporting, stock balances, etc. which CARE does not address. We believe that CARE needs to improve record keeping to ensure that reports are accurate and reliable (refer to Recommendation 4).

CARE's Comments on Commodity Reports. CARE agreed to include certain stock balances in future reports. Also, they acknowledge that certain data for fiscal year 1988 had not been included in the reports but that USAID had been informed and that Recommendation 4 was very sweeping as it implied that proper records were not maintained at any of the blocks or feeding centers, while this was not the auditor's intention according to statements expressed at a meeting. As to the reconciliations for in-transit inventory, CARE stated that this was performed monthly.

Auditor's Comments. While CARE agreed to make certain changes which will improve the reports, additional changes are still necessary. For example, if information is to be left out of a report, this should be clearly reflected in the report. Whether or not USAID officials were informed that the report was incomplete should not take the place of full disclosure in the report. In our view and as mentioned in the meeting referred to, the finding clearly states that improvements are necessary in maintaining records for reporting operations accurately and it is CARE's responsibility to ensure the same. Also, the in-transit inventory (between blocks/circles and feeding centers) is clearly discussed on pages 26 and 27 of the report. Since unreconciled differences were noted at 12 of 18 blocks tested, we believe that CARE does not in fact resolve the differences arising in a timely manner (refer to Recommendation 5).

B. PROGRAM OVERSIGHT

Program oversight activities need additional management attention. CARE's review of blocks/circles and feeding centers together with the reviews of feeding centers performed by Government officials should be more effective. The oversight visits were not always performed or planned properly, the extent of coverage by field officers and the Government officials was not adequate, and documentation of review efforts needed substantial improvement. Though the oversight activity was relatively better in Karnataka as compared to the other two states, certain important operational aspects were not being sufficiently reviewed in all three states. Additionally, improvements were necessary to better control processing unit operations in Maharashtra, ensure correction of known problems, and manage empty container funds properly.

Discussion

Oversight reviews are necessary to provide assurance that the Program is operating effectively and in accordance with various regulations such as A.I.D. Regulation 11. These responsibilities should be fulfilled as follows:

- Block/circle officials review the operations of the feeding centers under their control.
- CARE's state offices review the operations of both the blocks/circles and the feeding centers within the state.
- CARE's New Delhi office reviews through its external auditors and other consultants the operations in various states, on a rotational basis, to ensure that the ten states are reviewed once in three years.

While CARE had assured the Mission that the reviews were being performed, certain crucial aspects of the review function were found to be lacking, and deficiencies were found with the frequency of reviews. Also, increased management attention was required to ensure that various internal policies and practices were being properly followed.

Block/Circle Reviews of Feeding Centers. According to GOI requirements, blocks/circles were to perform monthly supervision reviews of each feeding center under their control. It was not possible to determine the number of reviews actually made because there was no requirement to document the reviews in any of the states. However, our visits to the blocks disclosed that adequate staff was not available to perform these reviews. In 7 of 12 blocks visited in Karnataka, 10 of 19 blocks visited in Maharashtra, and 14 of 26 blocks/circles visited in West Bengal, it was noted that the staff available to perform the monthly reviews of the feeding centers was inadequate.

Without the staff, the required frequency of the reviews could not be met. For example, in one block in Maharashtra, there were only four reviewers against the requirement (sanctioned posts) of eight. In two blocks at Karnataka, only six reviewers were available per block, but 11 were required. This shortage had existed during the previous two years. Thus, because of such shortages, we concluded that a substantial number of reviews were not being performed.

Some reviews were documented but generally such documentation would merely be by way of a short entry in a diary maintained by the reviewers. In West Bengal, however, certain blocks had developed forms for documenting the reviews. These forms were found to be useful in ensuring that some of the important aspects were considered in the reviews. This concept should be expanded.

It was also noted that the quality of reviews which were performed and documented needed to be improved. Various problems noted in inventory and attendance records have been discussed in Findings A and C. However, these were not reported in the block/circle reviews of feeding centers. For example, the problems relating to ration dilution, feeding interruptions, lack of loss reporting, stock discrepancies, differences between inventory and attendance records, and warehousing were not commented upon by the reviewers. The feeding center reviews need substantial improvement to be effective and CARE should therefore provide the necessary training to block/circle reviewers.

If the blocks/circles adequately performed and documented the required reviews, many of the problems now revealed by the audit would have been reported and corrective action could have been initiated. Accordingly, measures need to be taken by CARE to ensure that the number of supervisors at the blocks/circles are adequate for supporting the program size, to provide training if necessary to improve the quality of reviews, and to develop a systematic approach for carrying out the reviews -- probably by introducing a standard form for use by the block/circle officials during the reviews.

CARE State Office Review of Blocks/Circles and Feeding Centers. According to CARE operations manual, the state office reviewers were to perform supervision reviews of blocks/circles/central-mini kitchens (reporting points) at least thrice a year and of at least 6 percent of the feeding centers (3 percent up to 1988) every year. However, it was noted that in all three states visited, the number of reviews performed were not as per CARE requirements. The coverage by the state reviewers was less than the required level for blocks/circles in Karnataka in fiscal years 1989 and 1990 and in West Bengal, in fiscal year 1988. Also, for feeding centers, the review coverage was not sufficient in West Bengal during 1988 or in Karnataka in 1989. This is illustrated by the following table:

<u>Location/Year</u>	<u>Karnataka</u>		<u>Maharashtra</u>		<u>West Bengal</u>	
	<u>Reviews Required</u>	<u>Reviews Performed</u>	<u>Reviews Required</u>	<u>Reviews Performed</u>	<u>Reviews Required</u>	<u>Reviews Performed</u>
Block/circle						
1988	-	-	132	228	564	527
1989	486	247	132	209	879	1,400
1990	486	419	144	143	870	1,040
Central/Mini Kitchens						
1990 *	204	110	-	-	-	-
Feeding Centers						
1988	-	-	396	546	585	361
1989	817	360	392	578	1,134	1,674
1990	850	881	426	355	1,196	2,548

* Central/mini kitchens were considered as feeding centers in Karnataka until fiscal year 1989 and were included in the overall target established for feeding centers.

The reviews were also not performed in a properly planned manner over the year to ensure that 6 percent of the feeding centers in all blocks/circles were reviewed. In some blocks, the feeding center coverage was less than the 6 percent requirement even though on a statewide basis the 6 percent requirement was met. The table below provides the details for blocks/circles visited by us where the number of feeding centers reviewed by CARE was less than the 6 percent requirement statewide. In these cases, the reviews did not cover a sufficient number of feeding centers.

	<u>No. of Blocks/Circles Visited</u>	<u>No. of Blocks Where the Centers Coverage was Less than 6 Percent</u>
Maharashtra:		
1988 - 1989	19	8
1989 - 1990	19	11
Karnataka:		
1988 - 1989	20	15
1989 - 1990	20	3

CARE therefore needs to ensure that the visits by the state reviewers/field officers are properly planned to adequately cover the blocks/circles and the related feeding centers, and more frequent visits are made to the blocks/circles and feeding centers where problems had been noted during the previous visit but adequate corrective action was not taken by the concerned officials.

The formats used for block/circle and feeding center reports were not standardized and the emphasis placed on certain important aspects of the program varied between the states. Also, there was no report formats for the processing units in Maharashtra. In order to make the reviews more uniformly effective, certain changes in the formats and the introduction of a processing unit review form were necessary. Some suggested changes and certain comments relating to processing unit operations have been included in Appendix D.

The field officers reports which were prepared were not adequately reviewed at the CARE state offices. This often resulted in reducing effective monitoring and providing management with inaccurate and unreliable information. For example, the opening stock at some locations taken in the current review report did not reconcile with the closing stock noted in the previous report, as shown by the following table:

<u>Location</u>	<u>Closing Balance as Per Previous Report Bags</u>	<u>Opening Balance Taken in the Current Report Bags</u>
Ausgram - II, CSM	473	511
Mongalkote, CSM	9	20
Jamkhandi, CSM	1,222	1,227
Badami CSM (bags)	948	954

These differences illustrate weak oversight reviews which were not examined or commented upon by the state offices. Following are some other problems which existed but which were not adequately dealt with by the state offices.

- The comments made by reviewers in their report were general and were not always self-explanatory. For example, the state reviewer reported that the attendance records were maintained. However, on our visit, we noticed that the attendance records were not maintained properly. Also, when low attendance was reported, no reason was usually given.

- Certain other important aspects of the program were not covered by the reviewers. There was generally no comment over the inadequacy of reviews performed by Government officials (see first part of this finding). Also, the actual distribution of commodities supplied under the program was seldom observed by the reviewers. Other problems generally not commented upon by the reviewers but noted by us have been discussed under Findings A and C.
- The information given in certain review reports was found to be inconsistent with the records. For example, in one report it was stated that there was no difference between the book balance and the physical stock at a feeding center. In the same report, it was also stated that the stock records were found to be maintained inaccurately. No details about the nature of inaccuracy or the corrective action required was mentioned. Also, for another feeding center, the following inconsistent information was noted:

<u>Sukhda</u>	<u>Book Balance</u> <u>(kgs)</u>	<u>Physical Balance</u> <u>(kgs)</u>
In stock details	108.50	132.50
In remarks	181.80	125.00

No follow-up action was taken or suggested by the state office although the report also stated that the stock records were inaccurate.

- At one feeding center, the report stated that no records were available as the center was closed. However, in a later part of the report, it was noted that "gross irregularities" were found in records and files.
- Commodities were supplied without ensuring availability of adequate storage facilities and distribution arrangements.
- In a number of feeding centers, it was noticed that the food deliveries to centers had stopped resulting in feeding interruptions at the centers. However, although feeding interruptions were noted in the reports, adequate action had not been taken by the CARE state office to address this recurring problem.
- Comments were often not made on the inadequate and inaccurate records maintained for empty containers and the funds generated from their sale. As a result, such problems noted by us at 24 blocks/circles were not reported for corrective action. For example, at one circle in Karnataka, while reconciling the book balance of empty containers with the physical stock, the following unexplained differences were noted:

	<u>Bags (Nos.)</u>	<u>Tins (Nos.)</u>	<u>Cartons (Nos.)</u>
Book balance	1,262	1,110	185
Physical balance	<u>283</u>	<u>273</u>	<u>46</u>
Shortage	<u>979</u>	<u>837</u>	<u>139</u>

- At a block in West Bengal, the records for empty containers sold or the funds generated, were not available for fiscal years 1988 and 1989. Substantial amount of funds are generated through sale of empty containers. As illustrated by the following picture a large number of empty CSB bags were awaiting sale:



- The follow-up actions taken by the block for the exceptions reported in previous reports were not subsequently reviewed to ensure corrections. This had the effect of known problems remaining uncorrected as also discussed further in this part of the report.
- Contrary to Maternal Child Health Program guidelines contained in Handbook 9, the field review reports covering the ICDS program did not include observations on the non-feeding health and nutritional aspects of the program. This practice had been stopped as from March 1988 to enable state offices to improve the frequency and quality of reviews. However, in our view, this did not result in the expected improvement.

- In all the three states visited, it was noticed that before supplying commodities to a new block, there was generally no preliminary evaluation performed by the state office to ensure that the block had the necessary infrastructural facilities to operate effectively. Based on our review of new blocks which started operations during fiscal years 1988 and 1989, we concluded that CARE did not sufficiently confirm that the block had adequate storage facilities and the other infrastructure such as adequate GOI staff, training of feeding center workers, availability of inventory, and the use of reporting forms required. As a result, the problems arising at the new locations were:
- Adequate Government staff to supervise the program operations was not available. For example, at one block, there was only one supervisor against the requirement (sanction) of nine even after one year of operations.
 - Printed stock registers and other report forms were not supplied to various feeding centers, which resulted in poor record maintenance at the feeding centers.
 - Commodity flowcharts to determine food requirements at feeding centers were not maintained at certain blocks resulting in excessive stock at certain locations and shortages at others.

The findings which were disclosed by the field officers were also not always properly reviewed at the state office. For effective control, it is desirable that each state maintain a compliance register which provides the details of follow-up actions taken to deal with problems reported by the state reviewers. No such register was maintained in Maharashtra and West Bengal. While reviewing the 'compliance register' maintained for Karnataka, the following problems were noted:

- Compliance reports were generally received late. Delays of three to six months were common.
- No reminders were sent by CARE from April 1989 to November 1989 in respect of compliance reports which were delayed. Also, in certain other cases the follow-up and subsequent reminders were delayed by the state office.
- The register was not updated for July 1990 visits and no reminders were sent for the pending compliance reports or other required action, e.g. 'Empty Container Fund Reports'.
- On discontinuation of the old register, pending follow-ups were not included in the new register, thereby ignoring the previously notified problems altogether.

In order to improve review quality, CARE needs to ensure that its state offices properly examine the review reports, change review report formats to make reviews uniformly effective, confirm that important program aspects are adequately reviewed, and follow-up on known problems.

CARE's New Delhi Office Reviews of Various States. CARE New Delhi office relies on external firms of accountants to perform annual evaluations and audits (internal reviews). These reviews, performed on a rotational basis, are designed to cover each of the ten states in which CARE operates once every three years. Our study of such reviews showed that these did not give the required emphasis to the food management/distribution aspects of the program, as only a very limited number of distribution locations were visited in the states selected for audit. The table hereunder illustrates the limited number of locations visited:

<u>Year</u>	<u>States</u>	<u>Numbers Visited</u>	
		<u>Blocks</u>	<u>Feeding Centers</u>
1984	Bihar	-	7
	Rajasthan	3	6
	Tamil Naidu	2	12
	Uttar Pradesh	2	9
	Andhra Pradesh	<u>3</u>	<u>8</u>
		<u>10</u>	<u>42</u>
1985	Bihar	2	6
	Uttar Pradesh	2	8
	West Bengal	2	7
	Orissa	1	6
	Kerala	<u>3</u>	<u>4</u>
		<u>10</u>	<u>31</u>
1986	Maharashtra	2	4
	Gujrat	2	5
	Karnataka	<u>3</u>	<u>6</u>
		<u>7</u>	<u>15</u>
1988	Andhra Pradesh	5	5
	Madhya Pradesh	2	7
	Rajasthan	3	6
	Orissa**	<u>133</u>	<u>250</u>
		<u>143</u>	<u>268</u>

* 1987 and 1989 reviews were waived by the Mission at CARE's request.

** Additional coverage at specific request of CARE.

As can be seen, with the exception of Orissa during 1988, in all other states the reviews covered only a few locations. However, the reviews performed did disclose some problems which are similar to those revealed by our audit and reported under Findings A and C. For example:

- Feeding interruptions were widespread.
- Ration dilution occurred frequently.
- Inventory differences remained unexplained.
- Certain inventory and attendance records were found unreliable.
- Inventory remained unacknowledged and was not distributed by blocks/circles as per feeding center requirements.
- Lack of proper loss reporting was observed.
- There were delays in submitting reports and issues by blocks were not being matched to receipt reports.
- There was inadequate GOI staffing at blocks/circles.
- Warehousing problems relating to improper stacking, dunnage, segregation and storage facilities were noted.

As the reviews were only performed at a limited number of locations, the significance of the problems reported did not appear to have been fully appreciated by CARE and consequently did not result in corrective actions necessary at a much larger number of program locations. This conclusion is further supported by the table hereunder which illustrates that known problems, as also reported by an A.I.D. 1982 audit report, remained largely uncorrected.

<u>Problem Notified Previously</u>	<u>Number of Locations Where the Problem was still Noted</u>
Commodity supply to centers was irregular which resulted in program interruptions.	14 blocks
Absence of timely receipt of reports from the field (reporting points).	All the three states visited.

Recording of large quantities as unreceipted inventory in-transit.	States of Karnataka and West Bengal.
Commodity flowchart not prepared in some cases.	14 blocks
Ration dilution or distribution of excess food.	83 feeding centers
Improper write-off of losses.	15 feeding centers
Lack of proper attendance records.	164 feeding centers
Discrepancies in physical stock verification.	49 feeding centers
Field visits to feeding centers by the CARE state reviewer were less than the target fixed.	See schedule on page 35.
The school refused to lift the stock from the project godowns because there were delays on the part of State Government in payment for the condiments, cook, and transportation charges.	Karnataka and West Bengal
Inadequate space and lack of proper storage facilities in the godowns.	26 blocks
Proper records for empty containers not maintained.	24 blocks
Lack of facilities at the feeding center i.e. no plates etc.	48 feeding centers
Old interior claims pending.	West Bengal
In view of the fact that known problems have remained largely uncorrected, CARE needs to provide increased oversight resources for ensuring compliance.	

Recommendations

We recommend that the Mission require CARE to:

1. Improve interaction with government counterparts for ensuring that the blocks/circles are adequately staffed to review the operations of the feeding centers in order to help identify problems and improve operations. If necessary, additional training should be provided to the reviewers. Reviews should also be properly documented and commented upon by CARE during its reviews of the blocks/circles operations.

2. Ensure that the field officers' visits are properly planned so that adequate reviews are performed for all the blocks and more attention is given to the locations where problems were noticed in the previous visits.
3. Improve review quality by increasing the level of checking records and reports, observing food distribution, observing condition and quantity of stock, determining whether losses/absenteeism are reported, etc. Oversight reports prepared should be properly reviewed by CARE state officials.
4. Ensure that prior to supplying commodities to a new block, the block has adequate storage facilities and other infrastructure to support the program effectively.
5. Standardize reports for focussing emphasis on important program aspects and also improve the CARE field reviewer's reports. For processing units in Maharashtra, separate field reviewer's report format should be prepared, which includes all the important aspects of the processing unit operations.
6. Provide more attention and control over the maintenance of records for empty containers and empty container funds.
7. Randomly review through it's New Delhi office, the oversight reports prepared by the state offices, increase the scope of any internal reviews to include more feeding locations, and place greater emphasis on follow-up actions to ensure that identified problems are corrected in a timely manner.

Comments by CARE

CARE's written comments did not specifically address the seven recommendations which were made but orally the officials indicated agreement. The written comments which were provided are summarized below and the full text presented in Appendix E.

Concerning the issue of block/circle reviews of feeding centers, CARE officials agreed that some blocks did not have the full complement of Government staff and they need to bring such instances to the notice of the concerned state governments in a more systematic manner. The officials stated that they initiated such action even before the audit had started.

CARE mentioned that the 6 percent review requirement was only an internal requirement which was currently being met on a statewide basis. The officials also expressed some concern that in one part of the report, it indicates that the 6 percent requirement was being met, while in another part it indicates that it was not met.

The officials also provided a few comments about differences between some opening and closing balances, state reviews on the ICDS activity, empty containers, pre-project surveys being performed but not necessarily to the auditor's expectations, requirements for commodity flowcharts, follow-up registers being maintained, the scope of the internal reviews being approved by USAID, and action being taken to resolve outstanding claims.

Auditor's Comments

CARE's written comments explain why certain problems exist but did not address the recommendations or need for improvements. For example, nothing was mentioned about the need for improving interaction with state officials, standardizing report formats, reviewing randomly oversight reports, increasing the scope of internal reviews, etc. We believe such action is needed to improve these as well as the other issues in the report.

Concerning CARE's comment about the possible report contradiction affecting the number of visits to feeding centers, we believe that the report clearly states that even if the 6 percent statewide requirement was met, attention needs to be given to ensuring that the requirement is being met within the blocks. We found numerous blocks in two states where the 6 percent requirement was not met even though the total statewide requirement was met. To ensure that feeding center visits are made throughout the year and to locations that are representative of the entire program, it is important to apply the 6 percent requirement to each block as much as possible. Otherwise, it would be possible to just go to those feeding centers which are convenient at the end of the year to meet the requirement.

CARE's comments dealing with pre-project surveys were not consistent with our observations at the three state offices visited for there generally was no evidence of such surveys. Instead of recognizing the problem, CARE questioned what the auditors expected from such visits. CARE stated and we agree that a new program takes time to function optimally. That is why we believe pre-project surveys, confirming such things as adequacy of staffing, are important prior to supply commodities.

CARE's comments on maintaining compliance registers were also inconsistent with our findings. The report noted on page 39 that the state offices did not always properly review the problems disclosed by its field officers and compliance registers were not maintained in Maharashtra and West Bengal, while in Karnataka the register was not updated. The main point we were making was that improvements were necessary in the oversight exercised by CARE.

C. COMMODITY WAREHOUSING

Warehousing activities in two of the three states were found to be generally satisfactory. However, at certain blocks/circles and feeding centers, improvements were required to ensure that all damaged packages were repaired, commodities were adequately tested for fitness, proper dunnage was used, commodities were properly stacked and segregated, stock was rotated properly and storage facilities were adequate. The warehousing activities in West Bengal required greater improvement than in the other two states.

Discussion

Warehousing activities were reviewed at 46 blocks/circles, 319 feeding centers, 3 regional godowns, 2 processing units, and 3 district marketing offices. In addition to the blocks/circles covered for audit, 64 blocks/circles were also visited at the time of annual physical inventory in June/July 1990 in Karnataka and West Bengal. While overall conditions were generally found to be satisfactory, various problems were noted as discussed in the following sections.

Damaged Packages. All storage locations are required to repair/reconstitute damaged containers as soon as possible to protect the commodities and prevent further losses. When this is not accomplished, contents are exposed to the environment and infestation is accelerated, resulting in food items spoiling. We found such unrepaired damaged food containers at 15 of 110 blocks visited.

Reconstitution of damaged packages was generally only performed at the time of CARE field officer's visit. As a result, the damaged commodities were not being protected in accordance with requirements to reconstitute damaged packages promptly. For example, at one circle in West Bengal, 100 damaged bags of bulgur wheat had been awaiting reconstitution for over three months. The bags were only reconstituted at the time of the field officer's visit. In another block in the same state, out of 15 damaged CSB bags, 11 bags had been distributed without reconstitution and 4 others which were almost half empty had been awaiting reconstitution for over six weeks.

Following are two pictures from a block location showing damaged containers not being promptly reconstituted:



CARE should require blocks/circles and feeding centers to reconstitute damaged packages as early as possible and ensure that reconstituted commodities, if fit, are distributed before others.

Fitness/Infestation. Blocks/circles and feeding centers are required to ensure that only commodities fit for human consumption are distributed. However, in West Bengal, 240 infested CSM bags were distributed by a block without testing for fitness, and the feeding centers subsequently reported losses arising due to infestation. At another block in the

same state, block officials stated most of an 800-bag shipment of CSB was infested. However, the bags had been distributed to feeding centers without fitness testing, and no further attempt had been made to assess and report the loss arising therefrom. Also, two cases of infested commodities were noted out of the 78 ICDS feeding centers reviewed in West Bengal.

CARE should require blocks/circles and feeding centers to ensure that only commodities fit for human consumption are distributed, and in case of doubts as to fitness, appropriate tests or other reviews should be made. Such a procedure would further minimize the likelihood of infested food being distributed.

Dunnage/Stacking/Segregation. Important practices in storing food commodities include providing protection from ground moisture, ensuring proper air-circulation, and separating damaged/infested commodities. We noted problems with these requirements at 74 out of 110 blocks/circles and 30 of 319 feeding centers.

While CARE requires blocks/circles and feeding centers to use dunnage at the base of stored commodities, adequate dunnage was not used at 28 of 110 blocks/circles reviewed. At certain locations polytene sheets/bags were used in place of wooden dunnage, thereby risking ground moisture and preventing air circulation. Cases were also noted where dunnage was not used at the base of stored commodities. The following is a picture from a block showing the lack of dunnage:



Proper stacking to allow for air circulation and adequate segregation to prevent damage to commodities and to facilitate stock verification are required. Adherence to requirements for proper stacking were not being followed at 64 of 110 blocks/circles resulting in improperly stored commodities. Also, we were unable to physically verify stocks in 3 of 12 blocks in Karnataka and 4 of 18 blocks and the 2 circles visited in West Bengal because of improper stacking.

The following is a picture showing improper stacking at a block:



According to block/circle officials, it was not always possible to follow the prescribed storage standards due to limited storage facilities. However, even in cases where storage space was adequate, commodities were not always stacked and segregated as per CARE guidelines. CARE should ensure that blocks/circles and feeding centers have adequate storage facilities available and adhere to prescribed storage guidelines.

Stock Rotation. The CARE manual establishes the stock rotation procedures which should be followed by the various reporting locations where commodities are stored. However, instances were noticed where the prescribed procedures were not followed (four blocks) which resulted in older stock being retained for periods longer than necessary and recent receipts being issued first.

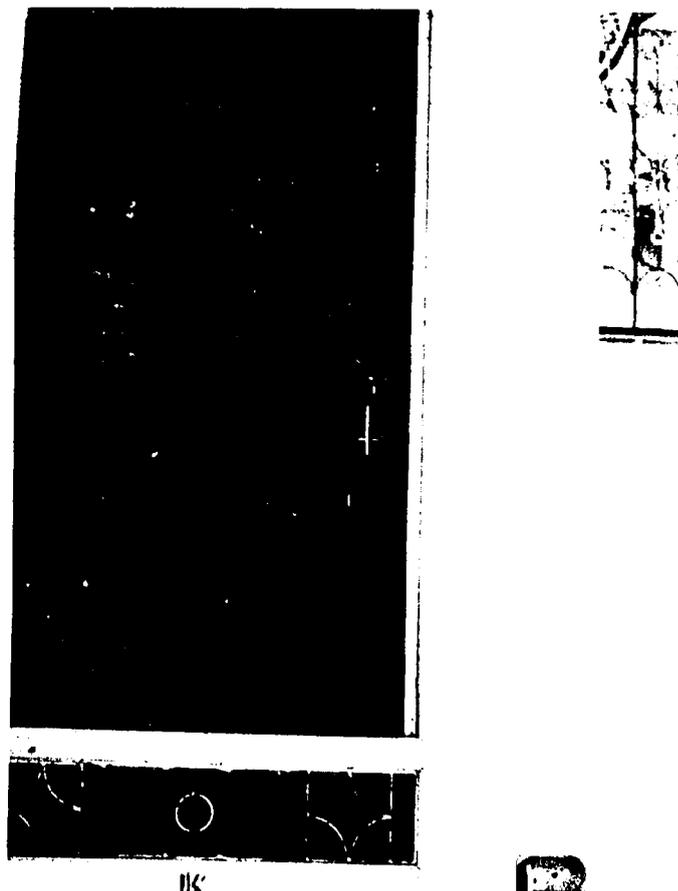
The following is a picture illustrating the conditions under which FIFO was not followed at a block because it was not possible to access the stocks at the rear of the godown:



In Maharashtra, it was not possible to determine either at processing units or at the feeding centers whether the stock was being rotated as per prescribed guidelines because the bags used for packing processed food did not have any number or date of processing.. In order to enable field reviewers to confirm that stock rotation is appropriate, the new bags used need to state the date of processing.

Physical Storage. The physical storage facilities available at certain blocks were inadequate. Such problems were noted at 26 of 110 blocks visited for reviewing warehouse activities. The warehousing structure at these locations did not offer adequate space and/or protection (such as waterproofing, ventilation, etc.) required for food commodities.

The following is a picture from a block showing stocks stored in the block office as the godown storage was not adequate to store all the commodities at hand:



CARE needs to ensure that the physical storage facilities being provided by blocks/circles conform to the requirements.

C&F Agent's Warehouses. In West Bengal, some commodities were improperly stacked and adequate dunnage had not been provided. At one of the three warehouses visited, bulgur wheat belonging to CARE and another voluntary organization was kept together, thereby making identification of CARE stocks difficult. Also, physical verification was not possible at these locations due to the manner of stacking and because large volume of commodities were stored in very restricted/inadequate storage space.

Recommendations

We recommend that the Mission require CARE to:

1. Improve the proper and timely reconstitution of damaged packages, perform fitness testing or other reviews when appropriate, and ensure that reconstituted commodities are distributed first.

2. Improve the use of proper dunnage, proper stacking, segregation, stock rotation, and physical storage facilities.
3. Mark the date on processed food packages.

Comments by CARE

CARE officials did not specifically address these three recommendations in their written response. They did, however, state that to put the matter into perspective, we should have shown photographs of good storage operations in addition to the ones included. The full text of CARE's comments is presented in Appendix E.

Concerning the point on damaged packages, CARE stated that instructions were reissued, from time to time, to all districts and blocks to reconstitute the damaged commodities. On the issue of fitness/infestation, CARE officials stated that commodities with slight infestation can be cleaned and used for feedings and that instructions not to use unfit commodities have been issued to all feeding centers.

As to the storage practices, CARE officials stated:

" We believe most of the district/block godowns follow adequate storage practices compared to commercial practices in India. Obviously, they can be improved but this needs, again, to be put in the perspective of the conditions in rural India. The significant point to emphasize is whether, given less than ideal conditions, most of the food is used for the intended purposes and there is general agreement that it is."

CARE officials also stated that despite instructions, stocks are sometimes not rotated properly because of the warehouse design or the inexperience of staff. As to the Sukhda bags that did not have any dates, CARE mentioned that this must have occurred during a short period when the plant ran out of indelible ink. After receiving a new ink supply, the plant has restarted marking the bags.

No specific comments were provided by CARE officials to the physical storage problems noted at 26 of the 110 blocks visited during this review. Officials did state that they believed the C&F warehouses in Calcutta were generally following proper storage practices. However, the officials stated that because of delays in two other states in shipping the commodities out, storage capacity had been exceeded.

Auditor's Comments

CARE's written comments do not address the main issues of this finding. Although some prior action had been taken on some of the points, additional emphasis is necessary especially in West Bengal. For example, the storage practices which were discussed certainly indicates that improvements were necessary. Also, the fact that CARE requested that we include photographs of the many good storage sites clearly indicate that such improvements were feasible. This is supported by the generally satisfactory storage conditions found in two of the three states reviewed. Accordingly, we believe that CARE needs to address each of the specific problems mentioned in this finding.

**NON-FEDERAL AUDIT OF CARE - INDIA
PL-480, TITLE II PROGRAM IN STATES OF
KARNATAKA, MAHARASHTRA, AND WEST BENGAL**

PART VIII - APPENDICES

**SUMMARIZED COMMODITY STATUS REPORT
FOR FISCAL YEARS 1988 AND 1989**

KARNATAKA STATE

Commodities In Metric Tons

<u>Particulars</u>	<u>CSM/B</u>		<u>Oil</u>		<u>Bulgur</u>		<u>Total</u>	
	<u>1988</u>	<u>1989</u>	<u>1988</u>	<u>1989</u>	<u>1988</u>	<u>1989</u>	<u>Qty</u>	<u>\$'000</u>
Starting Inventory	5,112	4,133	845	966	2,004	3,403	16,463	\$ 6,964
Receipts	<u>9,495</u>	<u>9,902</u>	<u>1,728</u>	<u>1,500</u>	<u>8,481</u>	<u>6,967</u>	<u>38,073</u>	<u>15,417</u>
Total Available	<u>14,607</u>	<u>14,035</u>	<u>2,573</u>	<u>2,466</u>	<u>10,485</u>	<u>10,370</u>	<u>54,536</u>	<u>\$22,381</u>
<u>Less Distribution:</u>								
ICDS	9,774	11,517	1,204	1,408	-	-	23,903	\$10,765
MDM	-	-	395	400	6,425	6,504	13,724	4,790
Others	-	-	-	-	-	-	-	-
Total Distribution	<u>9,774</u>	<u>11,517</u>	<u>1,599</u>	<u>1,808</u>	<u>6,425</u>	<u>6,504</u>	<u>37,627</u>	<u>\$15,555</u>
Balance	<u>4,833</u>	<u>2,518</u>	<u>974</u>	<u>658</u>	<u>4,060</u>	<u>3,866</u>	<u>16,909</u>	<u>\$ 6,826</u>
<u>Less Adjustments:</u>								
Losses - Marine	836	301	3	17	1,620	121	2,898	\$ 1,019
- In Country	78	23	5	7	152	27	292	107
Transfers/Others	<u>(214)</u>	<u>(228)</u>	<u>-</u>	<u>(3)</u>	<u>(1,115)</u>	<u>(9)</u>	<u>(1,569)</u>	<u>(535)</u>
Total Adjustments	<u>700</u>	<u>96</u>	<u>8</u>	<u>21</u>	<u>657</u>	<u>139</u>	<u>1,621</u>	<u>\$ 591</u>
Closing Inventory	<u>4,133</u>	<u>2,422</u>	<u>966</u>	<u>637</u>	<u>3,403</u>	<u>3,727</u>	<u>15,288</u>	<u>\$ 6,235</u>

The Summarized Commodity Status Report presented above is for information only in order to show what was reported to the Mission. The audit opinion concerning this report is stated in Part III.

The notes appearing on page 4 of this appendix are an integral part of the Summarized Commodity Status Report appearing above.

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**SUMMARIZED COMMODITY STATUS REPORT
FOR FISCAL YEARS 1988 AND 1989**

MAHARASHTRA STATE

<u>Particulars</u>	<u>Commodities In Metric Tons</u>							
	<u>CSM/B</u>		<u>Oil</u>		<u>Bulgur</u>		<u>Total</u>	
	<u>1988</u>	<u>1989</u>	<u>1988</u>	<u>1989</u>	<u>1988</u>	<u>1989</u>	<u>Qty</u>	<u>\$'000</u>
Starting Inventory	4,000	3,619	434	765	-	-	8,818	\$ 4,081
Receipts	<u>9,438</u>	<u>7,701</u>	<u>1,820</u>	<u>1,125</u>	<u>-</u>	<u>-</u>	<u>20,084</u>	<u>9,330</u>
Total Available	<u>13,438</u>	<u>11,320</u>	<u>2,254</u>	<u>1,890</u>	<u>-</u>	<u>-</u>	<u>28,902</u>	<u>\$13,411</u>
<u>Less Distribution:</u>								
ICDS	9,577	9,947	1,470	1,529	-	-	22,523	\$10,374
MDM	-	-	-	-	-	-	-	-
Others	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
Total Distribution	<u>9,577</u>	<u>9,947</u>	<u>1,470</u>	<u>1,529</u>	<u>-</u>	<u>-</u>	<u>22,523</u>	<u>\$10,374</u>
Balance	<u>3,861</u>	<u>1,373</u>	<u>784</u>	<u>361</u>	<u>-</u>	<u>-</u>	<u>6,379</u>	<u>\$ 3,037</u>
<u>Less Adjustments:</u>								
Losses - Marine	80	167	1	-	-	-	248	\$ 100
- In Country	167	92	19	14	-	-	292	130
Transfers/Others	<u>(5)</u>	<u>(15)</u>	<u>(1)</u>	<u>(3)</u>	<u>-</u>	<u>-</u>	<u>(24)</u>	<u>(10)</u>
Total Adjustments	<u>242</u>	<u>244</u>	<u>19</u>	<u>11</u>	<u>-</u>	<u>-</u>	<u>516</u>	<u>\$ 220</u>
Closing Inventory	<u>3,619</u>	<u>1,129</u>	<u>765</u>	<u>350</u>	<u>-</u>	<u>-</u>	<u>5,863</u>	<u>\$ 2,817</u>

The Summarized Commodity Status Report presented above is for information only in order to show what was reported to the Mission. The audit opinion concerning this report is stated in Part III.

The notes appearing on page 4 of this appendix are an integral part of the Summarized Commodity Status Report appearing above.

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**SUMMARIZED COMMODITY STATUS REPORT
FOR FISCAL YEARS 1988 AND 1989**

WEST BENGAL STATE

<u>Particulars</u>	<u>Commodities In Metric Tons</u>							
	<u>CSM/B</u>		<u>Oil</u>		<u>Bulgur</u>		<u>Total</u>	
	<u>1988</u>	<u>1989</u>	<u>1988</u>	<u>1989</u>	<u>1988</u>	<u>1989</u>	<u>Qty</u>	<u>\$'000</u>
Starting Inventory	7,176	4,856	1,487	1,479	2,044	2,008	19,050	\$ 8,616
Receipts	<u>15,722</u>	<u>21,355</u>	<u>1,886</u>	<u>2,418</u>	<u>2,771</u>	<u>3,316</u>	<u>47,468</u>	<u>21,501</u>
Total Available	<u>22,898</u>	<u>26,211</u>	<u>3,373</u>	<u>3,897</u>	<u>4,815</u>	<u>5,324</u>	<u>66,518</u>	<u>\$29,117</u>
<u>Less Distribution:</u>								
ICDS	16,131	11,988	1,707	1,380	100	189	31,495	\$13,932
MDM	-	-	149	119	2,584	2,148	5,000	1,731
Others	<u>-</u>	<u>-</u>	<u>6</u>	<u>-</u>	<u>71</u>	<u>-</u>	<u>77</u>	<u>27</u>
Total Distribution	<u>16,131</u>	<u>11,988</u>	<u>1,862</u>	<u>1,499</u>	<u>2,755</u>	<u>2,337</u>	<u>36,572</u>	<u>\$15,690</u>
Balance	<u>6,767</u>	<u>14,223</u>	<u>1,511</u>	<u>2,398</u>	<u>2,060</u>	<u>2,987</u>	<u>29,946</u>	<u>\$13,427</u>
<u>Less Adjustments:</u>								
Losses - Marine	1,684	3,385	10	9	16	87	5,191	\$ 2,089
- In Country	256	351	31	78	36	18	770	355
Transfers/Others	<u>(29)</u>	<u>69</u>	<u>(9)</u>	<u>143</u>	<u>-</u>	<u>(8)</u>	<u>166</u>	<u>135</u>
Total Adjustments	<u>1,911</u>	<u>3,805</u>	<u>32</u>	<u>230</u>	<u>52</u>	<u>97</u>	<u>6,127</u>	<u>\$ 2,579</u>
Closing Inventory	<u>4,856</u>	<u>10,418</u>	<u>1,479</u>	<u>2,168</u>	<u>2,008</u>	<u>2,890</u>	<u>23,819</u>	<u>\$10,848</u>

The Summarized Commodity Status Report presented above is for information only in order to show what was reported to the Mission. The audit opinion concerning this report is stated in Part III.

The notes appearing on page 4 of this appendix are an integral part of the Summarized Commodity Status Report appearing above.

**NOTES TO SUMMARIZED COMMODITY STATUS REPORT
FOR FISCAL YEARS 1988 AND 1989**

KARNATAKA, MAHARASHTRA, AND WEST BENGAL

1. The Commodity Status Reports were summarized from the monthly Commodity Status Reports of the concerned states prepared by CARE and submitted to USAID/India every quarter. CARE prepares these reports based on information submitted by port, district godowns, C&F godowns, processing units, district marketing offices, and blocks/circles. All commodities are shown in metric tons (one metric ton equals 2,200 lbs.).
2. The rates used for valuing these commodities are the claim rates fixed by CARE for fiscal years 1988 and 1989.
3. Programs other than ICDS and MDM and "transfers" of stock included in the reports have not been subject to audit.
4. The inventory balances reported are as per records and are not adjusted for unreported losses, losses reported but pertaining to other periods, and inventory in-transit or remaining unacknowledged at the fiscal year end.
5. The Commodity Status Reports do not indicate the extent to which port, district godowns, C&F godowns, processing units, district marketing offices, and blocks/circles reports are missing or pertain to previous periods.

**SUMMARIZED RECIPIENT STATUS REPORTS
FOR FISCAL YEARS 1988 AND 1989**

KARNATAKA, MAHARASHTRA, AND WEST BENGAL

<u>Program Area</u>	<u>Commodities In Metric Tons</u>							
	<u>Recipients Reached *</u>		<u>Grain **</u>		<u>Oil</u>		<u>Total</u>	
	<u>1988</u>	<u>1989</u>	<u>1988</u>	<u>1989</u>	<u>1988</u>	<u>1989</u>	<u>Qty</u>	<u>\$'000</u>
	<u>Karnataka State</u>							
ICDS	530,100	570,500	9,367	10,537	1,139	1,280	22,323	\$10,040
MDM	—	619,600	—	6,791	—	424	7,215	2,552
Total	<u>530,100</u>	<u>1,190,100</u>	<u>9,367</u>	<u>17,328</u>	<u>1,139</u>	<u>1,704</u>	<u>29,538</u>	<u>\$12,592</u>
	<u>Maharashtra State</u>							
ICDS	478,900	544,000	7,832	8,856	1,205	1,363	19,256	\$ 8,880
MDM	—	—	—	—	—	—	—	—
Total	<u>478,900</u>	<u>544,000</u>	<u>7,832</u>	<u>8,856</u>	<u>1,205</u>	<u>1,363</u>	<u>19,256</u>	<u>\$ 8,880</u>
	<u>West Bengal State</u>							
ICDS	942,100	1,098,400	14,997	16,353	1,449	1,788	34,587	\$15,325
MDM	—	274,000	—	2,833	—	158	2,991	1,048
Total	<u>942,100</u>	<u>1,372,400</u>	<u>14,997</u>	<u>19,186</u>	<u>1,449</u>	<u>1,946</u>	<u>37,578</u>	<u>\$16,373</u>

* Average per month.

** Commodity referred to as "Grain" includes CSB/CSM and bulgur, as individual details are not available.

These Summarized Recipient Status Reports are presented for information only in order to show what was reported to the Mission. The audit opinion concerning this report has been disclaimed (see Part IV).

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

**NOTES TO SUMMARIZED RECIPIENT STATUS REPORTS
FOR FISCAL YEARS 1988 AND 1989**

KARNATAKA, MAHARASHTRA, AND WEST BENGAL

1. The Recipient Status Report prepared by CARE and submitted to USAID/India every trimester is an estimation which is prepared on the basis of sample information for selected feeding centers. Amounts included therein are not adjusted for certain limitations and inaccuracies noted in the sample data which was used in estimating the Recipient Status Report. All commodities are shown in metric tons (one metric ton equals 2,200 lbs.).
2. Data relating to the MDM program was not collected nor reported to the Mission during fiscal year 1988.
3. The above Recipient Status Report information to the extent available is based on year ending March 31.
4. The rates used for valuing commodities are the claim rates fixed by CARE for fiscal years 1988 and 1989.

DESCRIPTION OF OPERATIONS AT FOUR BLOCKS

In order to provide the reader with a clearer understanding of block/feeding center operations, audit results from four blocks and their related feeding centers are included in this part of the report. Examples of two blocks, (Nos. 1 and 2) which had a limited number of problems are included to show the difference between relatively better operated blocks and other blocks (Nos. 3 and 4) which had more problems.

1. This block had 177 feeding centers under its control and the program size was as follows:

<u>Fiscal Year</u>	<u>ICDS Beneficiaries</u>	<u>Consumption per day (kgs)</u>		<u>Annual Value of Food Allocation (US\$)</u>
		<u>CSB</u>	<u>Oil</u>	
1988	8,250	536	66	\$ 80,000
1989	10,645	692	85	108,000
1990	20,775	1,350	166	215,000

In addition to the block, we visited five feeding centers. There were no discrepancies between the physically verified stock and stock records in the block and three feeding centers. The warehousing facilities and the condition of the stock at the block and feeding centers were generally adequate. The problems noted were:

- At 19 of the 177 feeding centers, feeding had taken place on 156 of the 300 working days, thereby indicating significant feeding interruptions mainly due to distribution problems at the block level.
- Supply of commodities to block from the C&F agent's warehouse was irregular which adversely affected the program and feeding centers for extended periods. In spite of this, attendance was high especially in the ICDS Program.
- The feeding center workers were not aware of loss reporting system and generally were not reporting any losses.
- There were delays in preparing and submitting loss reports.
- Records for sale of empty CSB containers were available, but no records were kept to give full account of empty oil pails.
- Stacking at the block godown was not proper.
- There were delays in reconstituting damaged commodities.

2. This block had 217 feeding centers under its control and the program size was as follows:

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<u>Fiscal Year</u>	<u>ICDS Beneficiaries</u>	<u>Consumption per day (kgs)</u>		<u>Annual Value of Food Allocation (US\$)</u>
		<u>CSB</u>	<u>Oil</u>	
1988	16,926	1,100	135	\$163,000
1989	20,800	1,352	166	210,000
1990	21,000	1,365	168	217,000

In addition to the block, we visited seven feeding centers. There were no discrepancies in the block/feeding center's stock records and the stock could be physically verified. Also, the warehousing facilities and condition of stock were found to be adequate at the block godown and at the feeding centers. The records at all the locations visited were generally maintained properly. The problems noted were:

- At the centers, there were feeding interruptions due to unavailability of stock. For example, of the seven feeding centers visited, three suffered from interruptions of more than ten days.
- Certain mathematical inaccuracies were noticed in the feeding center's stock records.
- The date the commodities were despatched to the feeding centers was not indicated on the delivery advices, making it difficult to verify that the goods despatched from the block were received by the feeding center on time.
- At some of the feeding centers visited, it was noted that the damaged stock was destroyed without adjusting the inventory records and without reporting the loss to CARE.
- At certain feeding centers, 100 percent attendance was marked in the attendance registers for considerable periods of time, thereby placing in doubt whether information reported reflected actual operations.
- Some stock records could not be verified because the stocks of five feeding centers were kept at one place and commingled. Thus, the worker was not able to identify the stock of her center.

3. This block had 100 feeding centers under its control and the program size was as follows:

<u>Fiscal Year</u>	<u>ICDS Beneficiaries</u>	<u>Consumption per day (kgs)</u>		<u>Annual Value of Food Allocation (US\$)</u>
		<u>CSB</u>	<u>Oil</u>	
1988	8,800	572	70	\$85,000
1989	8,800	572	70	89,000
1990	9,200	598	74	95,000

In addition to the block, we visited two feeding centers. The problems noted were:

- Dunnage at the block godown was inadequate despite repeated reminders from CARE and despite the fact that the block officials confirmed compliance.
- There were discrepancies between the stocks issued by the block and receipts acknowledged by the feeding centers. Instances are given as follows:

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<u>Month</u>	<u>Feeding Center</u>	<u>Issue by Block (kgs)</u>		<u>Receipt by/Feeding Center (kgs)</u>	
		<u>CSM/CSB</u>	<u>Oil</u>	<u>CSM/CSB</u>	<u>Oil</u>
December 1987	Madarkhandi	136.08	17.50	113.40	14.00
August 1988	"	136.08	17.50	130.08	17.50
August 1988	Jambagi	136.08	17.50	136.08	Nil
August 1988	Hullal	136.08	-	-	-
April 1989	Code No. 21	150.00	-	132.608	-

- There were differences between the closing stock balance and the opening stock balance of the subsequent month in the stock records of feeding centers. For example:

<u>Madarkhandi</u>	<u>CSB (kgs)</u>	<u>Oil (kgs)</u>
Closing balance as on December 31, 1987	37.400	5.500
Opening balance as on January 1, 1988	<u>128.945</u>	<u>23.316</u>
Difference	<u>91.545</u>	<u>17.816</u>

- The dates commodities were despatched to the feeding centers were not mentioned on the delivery advices, making it difficult to ensure that the despatched commodities were received by the feeding center on time.
- Some stock was stated as being distributed by the block, but the actual delivery to the feeding centers was made after 10 days. Also, certain other stocks were shown as issued by the block without noting the name of the feeding center where the commodities were sent. Thus, the block issues could not be reconciled with the feeding center receipts.
- At the feeding centers, there were feeding interruptions because of stock unavailability or absence of helpers. For example:

<u>Feeding Center</u>	<u>Period of Interruption</u>
Kodakola	December 24, 1987 to January 31, 1988
Kodakola	September 1, 1988 to September 31, 1988
Hunnura - 1	September 12, 1988 to September 24, 1988
Kankanwadi	January 19, 1988 to February 7, 1988
Kankanwadi	June 1, 1988 to June 15, 1988
Code No. 78	June 1, 1989 to June 30, 1989

- Losses were removed from inventory without preparing a loss report and without reporting such loss to CARE.
- Stock was not being properly rotated by the block.

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- Records for empty containers were not maintained up to August 1989, and the bank account for the empty container fund was opened only during March 1990. As a result, the generation and utilization of funds could not be verified for fiscal years 1988 and 1989.
 - On review of state reviewers' report, it was noticed that the closing commodity balances could not be reconciled with the opening balance taken in the subsequent report and no explanation was provided for the differences noticed. For example, the closing balance as on March 31, 1988 was 1,222 bags of CSM while the opening balance as on April 1, 1988 was 1,227.
 - At one of the feeding centers visited, the physical stock could not be reconciled with the book balances and 7 kgs (CSB) was found excess against stock record balance of 33 kgs while salad oil was excess by 0.6 kgs against stock record balance of 16 kgs.
4. This block had 120 feeding centers under its control and the program size was as follows:

<u>Fiscal Year</u>	<u>ICDS Beneficiaries</u>	<u>Consumption per day (kgs)</u>		<u>Annual Value of Food Allocation (US\$)</u>
		<u>CSB</u>	<u>Oil</u>	
1988	8,800	572	70	\$ 85,000
1989	6,599	429	53	67,000
1990	11,275	733	90	116,000

In addition to the block, we visited five feeding centers. The problems noted were:

- There were delays in preparing loss reports. For example, the loss during reconstitution of 285 bags of CSM was not reported for over a year.
- The block acknowledged that large quantities of CSB/CSM bags were received in cut and torn condition. However, no reconstitution losses were reported. For example:

<u>Receipt Reference</u>	<u>Total Quantity Received</u>	<u>Quantity Received in Cut and Torn Condition</u>
GDR/ADS/561 Dated January 18, 1989	445 bags of CSB	40 bags
GDR/ADS/352 Dated June 18, 1988	550 bags of CSM	40 bags
GDR/ADS/169 Dated April 5, 1988	550 bags of CSM	28 bags

- Large losses remained unexplained, and no loss reports were prepared. For example, while reviewing the stock reports of feeding centers at the block, it was noted that 3,817 kgs of CSM and 88 kgs of salad oil were washed away in floods. No loss report was prepared till the date of our visit. Also, there were other losses in nine other centers amounting to over 3,000 kgs of CSM, the causes for which could not be explained and no loss reports were prepared.

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- In spite of adequate stocks at the block, feeding centers did not have adequate stock and there were extended feeding interruptions. For example:

<u>Feeding Center</u>	<u>Period of Interruption</u>
Duttapura	October 17, 1987 to December 18, 1987 November 7, 1988 to January 3, 1989
Palikpara	June 4, 1989 to July 14, 1989
Kantaipara	June 5, 1989 to July 20, 1989

- Control over empty containers and the empty container fund was inadequate.
- Rations drawn by centers were not in line with attendance, resulting in ration dilution or excess food being distributed.
- At some of the feeding centers visited, the stock records were not made available for our verification, and at some centers, the stock records were not updated.
- Commodities despatched by the block were not per the feeding centers' requirements. For example, on the day of our visit, one feeding center had more than 4 months of stock while others had no stock.
- The block did not have adequate staff. This affected the quality of feeding center reviews done by the block.
- Supervision reports submitted were not satisfactory because there were no comments over many important aspects of the program.
- Commodities were stacked against a wall, and dunnage was not satisfactory.
- No double ration was being given to malnourished beneficiaries as per requirements.

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CHANGES TO REVIEW REPORT FORMATS

As discussed in Finding B, changes to the CARE review reports at various levels of the program would help ensure more thorough reviews were performed. Also, the review reports used by the three state offices need to be standardized to ensure that certain important program aspects receive the required emphasis. The changes suggested are summarized below:

Blocks/Circles

1. The CARE state reviewer should give more details under 'Records and Performance' to report whether the records are accurate, and should specifically ensure that the receipts by the block/circle and issues to feeding centers are correctly recorded. Also, under 'Records and Performance', the review should ensure that the block is maintaining a commodity flowchart and that despatches to various feeding centers are made according to their requirements.
2. The report should provide the food requirement of the block for two months for each commodity and then evaluate adequacy of storage capacity.
3. As is the practice in the State of West Bengal, review reports should provide details of reports pending from feeding centers—stating the month, name of the feeding center, commodity quantity, and other relevant remarks.
4. Adequate space should be provided for noting the follow-up actions required by the previous report, action taken by block/circle, and further actions required, if any. Similarly, adequate space should be provided for current visit observations and the CARE state reviewer should give his recommendations against which the block/circle officials should provide the necessary comments.
5. The block review report should have a section in which the state reviewer should comment upon the adequacy of block/circle supervision over the related feeding centers and confirm that exceptions are reported through the CARE state office.
6. The review format should provide adequate details regarding the maintenance of accounts for empty containers and empty container fund. Also, the empty containers balance should be reconciled with the physical stock and discrepancies, if any should be explained in the review report.
7. Reporting on storage conditions should include comments on stacking/dunnage/stock rotation and the warehousing practices being followed.

Feeding Centers

1. The state reviewers should comment whether rations are drawn correctly and record the manner in which rations are drawn.
2. The reviewers should state in their report, whether preparation of food and feeding was observed during the visit. Also, if food distribution is not observed at the feeding center, specific reasons need to be given for not performing this important task.

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3. In 'Adequacy of Accounting Records' section of the form, the state reviewers should ensure that the stock records are properly maintained in all respects and are mathematically accurate. For MDM program, the state reviewer should also ensure that 'CARE feeding attendance register' is properly maintained.
4. For MDM Program, 'Beneficiary details' should also have a column for 'Allotted beneficiaries', in addition to 'Total enrolment', so that the number of students in the reserve list can be ascertained.
5. The feeding center visit report format for the states of Maharashtra and West Bengal should have a provision for 'Time of visit', 'Feeding time', and 'Distance from block' as in the state of Karnataka.
6. More space should be given for the clause 'Follow-Up On Previous Visit' and the state reviewer should note the actions taken by feeding center or exceptions in previous report, and further action required if any. Similarly, for the current visit, the state reviewer should give his recommendations against which the feeding center should provide the necessary comments. The feeding center review report should be signed by the person in charge of its block/circle to confirm that they were notified of the review results.
7. In the Empty Containers Details section, the state reviewer should reconcile the book balance with the physical balance and difference if any should be explained (Karnataka and West Bengal).
8. In the 'General' section, the state reviewer should also verify the adequacy of dunnage provided and comment thereon.

Central/Mini-Kitchens

1. The state reviewer should give more details on 'Record-keeping' and should specifically ensure that the stock reports received from the sub-centers reconcile with the stock report of central/mini-kitchen. Also, the details of pending reports of sub-centers should be provided giving the name of the sub-center, commodity quantity, and other remarks, if any.
2. Adequate space should be provided for noting the actions taken by central/mini-kitchen or by previous report, and further action required, if any. Similarly, adequate space should be provided for and the state reviewer should give his current recommendations which the kitchen in charge should provide the necessary comments. The review report should be signed by the person in charge of the circle to confirm that they were notified of the review results.
3. The state reviewer should also comment upon the manner rations were drawn and whether it was proper.
4. The review format should provide adequate details regarding the maintenance of accounts for empty containers and empty container fund. Also, the empty containers balance should be reconciled with the physical stock and discrepancies, if any, should be explained in the review report.
5. The state reviewer should indicate whether the U.S. markings were obliterated prior to collection by CARE contractor.

Processing Units

More management attention needs to be given to strengthen the controls over the Chandrapur mechanized processing unit operations. On review of the production records at this unit, it was noted that the daily production gets affected because of frequent breakdowns. The reasons for such breakdowns could not always be ascertained, but there was no preventive maintenance plan for limiting such breakdowns. Additionally, there were frequent power interruptions resulting in stoppages which could not be prevented as the unit does not have an electric generator. The production registers maintained give the daily production at the two processing units based on the physical count at the end of the day. In absence of shift production details, it was impossible to exercise effective control over the level of production per shift.

With a view to improving control over the unit operations, the following suggestions are provided for inclusion in the review report to be introduced:

1. Stock details should be provided for raw materials and finished goods separately to enable reconciliation of book and physical inventory.
2. The issues by the processing units should be reconciled with the acknowledgements from the District Marketing Officers and discrepancies, if any, explained.
3. It should be ensured that production records are properly maintained giving the production details for each shift and any significant variations in production between shifts explained.
4. The breakdown register should be reviewed and commented upon to ensure that corrective actions to prevent frequent breakdowns are taken and the preventive maintenance plan is effective.
5. Adequate space should be provided for noting the follow-up action required by previous report, action taken by processing unit in charge and further action required if any. Similarly, adequate space should be provided for current visit observations and the state reviewer should give his recommendations against which the processing unit in charge should provide the necessary comments.
6. The CARE state reviewer should comment upon the adequacy of accounts for empty containers. Also, the empty containers balance should be reconciled with the physical stock and discrepancies, if any, should be explained in the review report.
7. The state reviewer should confirm that the U.S. markings were obliterated prior to collection by CARE contractor.

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CARE INDIA

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LETTER # 673
19 FEBRUARY 1991

M/s. Price Waterhouse
B 102 Himalaya House
23 Kasturba Gandhi Marg
New Delhi 110 001

Subject; CARE's comments on draft audit report

Dear Sirs,

Attached please find our comments in regard to the audit report submitted by you as a non federal audit of the CARE Title II program in 3 states in India.

If you have any questions on these observations or comments, do not hesitate to contact us. In general, we appreciate the cooperation of the audit team in undertaking this task and have appreciated the opportunity to comment and discuss various preliminary findings of the auditors prior to the finalization of the audit.

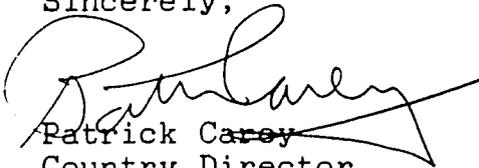
One area where I remain disappointed, however, is in the summary results of the audit. Although there have been some adjustments which indicate that in general the program is being properly managed. We believe that the language still does not include some favourable comments both written and verbal expressed by the auditors during the course of the review.

For example, in a letter dated December 28, 199⁰ the Mission Director of USAID in Delhi, forwarding the draft you say: "You will note that overall the operations of CARE were good....". In addition, in several of the state exit conferences and the final exit conference you mentioned that the program is basically a good one. In fact, in the case

of the ICDS program, you used the word excellent. Unfortunately, even the word good does not appear anywhere in the audit report and we believe, since this opinion was expressed both in writing and verbally elsewhere, that it should properly be contained in the audit report itself. It is always difficult for any organization to undergo an audit and as you know CARE is subject to many. We once again express our appreciation for the professionalism and cooperation of your staff.

With best regards,

Sincerely,



Patrick Carey
Country Director
CARE-India

Encl;
PC:tsr

cc: Shelly Kessler

COMMENTS ON THE PRICE WATERHOUSE AUDIT REPORT

PART VII - FINDINGS AND RECOMMENDATIONS

A. COMMODITY DISTRIBUTIONS AND ACCOUNTABILITY

Title II food in CARE-India program is distributed through 141,541 centres. Most of these feeding centres are in rural areas. Conditions in the rural areas are often less than the optimal desired. The poverty and relatively poor infrastructures are naturally linked. We face the dilemma that the neediest people are often in areas with relatively poor transport and storage conditions and also where there is low literacy particularly among workers who are required to maintain the records. The accomplishments and weaknesses need to be put in the perspective of the location of the program.

We do not deny that there are some problems in CARE supported programs at some centers and storage points. The program will always need to be worked on and improved. We would point out that the sample of centers visited was very small and it seems that program wide conclusions have been made based on this very small sample.

In several instances, exceptions noted by the auditors pertain to 1987 or 1988 and the problems had already been corrected or were beyond anyone's control. For example, in the schools covered by the Mini-Central Kitchen Konnanur, AEO Arkalgud, Karnataka, there was a feeding interruption from 1.11.88 to 22.11.88. This was due to the absence of the cook because of illness and feeding interruption has not occurred since then.

We agree that avoidable feeding interruptions need to be minimized but there are situations such as illness, transport problems and local disturbances where no one is at fault.

Commodity Distribution: There seems to be some misunderstanding about the guidelines for the feeding programs. According to the Government of India guidelines, the Anganwadis can draw the ration based on the previous day's attendance. However, some Anganwadis wait for beneficiaries to arrive and then they draw the ration for cooking. We believe that both procedures are acceptable. Also head counts can be deceptive. Pregnant and lactating mothers and children under three are not normally at the centers except at feeding time and some receive food at home carried by their children or older siblings.

If the feeding centre is visited other than at the feeding time, most of them will not be there. In addition, the auditors visited a few anganwadis after the normal working so headcounts would not be relevant.

Anganwadi	District	Block	Time Visited
Nawegaon Maal	Gadchiroli	Chamorshi	1630 to 1850 Hrs
Antargaon	Chandrapur	Sindhewahi	1610 to 1745 Hrs
Sulecari	Chandrapur	Nagbhid	1625 to 1810 Hrs
Rajoli	Chandrapur	Mul	1530 to 1945 Hrs
Gadchiroli	Gadchiroli	Gadchiroli	1610 to 1945 Hrs

(Anganwadis normal working hours are 0800 to 1100 or 1100 to 1400 hrs.)

Feeding Interruptions: The food is distributed through the state government infrastructure. It is true that there have been some feeding interruptions in some places in the program. However, the overall feeding days' achievement during April 89 to March 90 for MDM and MCH was 83% and 87% of the AER target. Although we do our best to avoid feeding interruptions, some of them are unavoidable - caused by non-availability of stocks, port strikes in the USA or India, temporary absence of block or center officials, problems in transportation, disruption in the food movement because of rains and no feeding due to rain (food is often cooked outside) or examinations in schools. School summer vacations are planned feeding interruptions. There can also be feeding interruptions due to local problems including various agitations, etc. During election time most of the government employees are diverted to election duty; this also causes feeding interruptions.

For instance heavy rains caused feeding interruption at 16 of the 126 centres; due to plant breakdowns at 6 centres, due to non-availability of stocks for various reasons including transportation and local problems at 29 centres and due to summer vacations and examinations at 5 centres etc.

We disagree with the auditors' conclusion that "this problem was widespread in both the ICDS and MDM programs" as CARE and government have been able to achieve 83% and 87% for MDM and MCH as mentioned earlier and particularly in ICDS the feeding day accomplishment has increased over the years. We believe 87% is a good achievement and will continue to improve.

Reporting Commodity Losses: The audit report mentions that interior losses reported during US FY 1988 and 1989 were less than 2 percent in the three States. Our figures indicate that the losses reported during the period in the three states were only 0.9%; (Karnataka 0.21%, Maharashtra 0.81% and West Bengal 1.46%). The losses at the district/block/circles are always reported to CARE either by the concerned state officials or picked up by the CARE FOs during their 3 times per year visits. We believe that most losses occur at intermediate storage points. The losses at the feeding centres are of small quantities. Many officials at centers do follow the established procedures and report the losses to CARE. However, there well may be some instances when the losses were not reported to CARE and reduced from the inventory or consumed because of change in personnel, new recruits etc. We believe, however, that CARE has a basically sound system of reporting losses.

Moreover, in terms of timeliness of reporting, per Regulation 11, Section 211.9, CARE is expected to report the losses to USAID within 90 days from the date the loss is known to CARE. According to our interpretation we are required to take action on the reported losses within that time frame.

The reporting of losses can also be very time consuming some of which is beyond our control. Sometimes, for example, medical personnel are not available to certify the fitness of the commodities particularly in the interior parts of the country or there is a delay in informing the CARE state office or there are problems in destroying the commodity. The losses can only be reported after the requirements of Regulation 11 have been met.

The auditors have shown pictures of damaged bags without mentioning the location and they have stated that "following are pictures of the damaged packages noted but no loss having been reported". If these losses occurred at any of the blocks or districts we believe they would have been reported.

The auditors have also mentioned that "infested commodities were received by blocks and issued to feeding centers but only some centers reported losses". Unfitness due to infestation depends on the amount of infestation and alcoholic acidity. If, outwardly, packages are sound, the blocks will despatch them to the feeding centres. If there is slight infestation, the commodities are sun-dried, sieved and used. It is not necessary that slightly infested commodity is unfit for human consumption.

Short weight commodities are sometimes received from the USA. In the recent past there have been substantial shortages from both short weight oil and grain containers. These have been reported to USAID also. Generally these losses are detected and the short weight containers are reconstituted into standard weight packages and despatched. However, there could be some instances where such short weight containers escaped our detection.

The audit comment "unreconciled issues by blocks/circles to feeding centers remain as unreceipted inventory" needs further clarification. If the auditors are talking about block issues which are not acknowledged by the feeding center reports, in that case we believe that the auditors should not have taken exception. On a normal visit to a block, the CARE FO would take exception to all those issues which are not acknowledged by the feeding centre reports, even though the anganwadi worker or the school teacher might have signed the waybill or challan or the stock register which would be acceptable under normal commercial practice.

Such exceptions noted by the FO are cleared in a subsequent visit(s) or in rare cases collectible claims are lodged against the concerned authorities. It is, in fact, a way to further ensure that food actually arrives as reported issued.

Attendance and Inventory Records: We believe that the inventory records at blocks or circle or feeding centres generally reflect actual operations. However, there may have been some deficiencies in the attendance records in particular centers.

The audit covered a period from 1987 onwards and it is possible that old records were not easily available to the auditors during their visit. For such cases, follow-up visits are required. In some of these cases, our field officers have already verified the unrepresented records.

Please refer to the comments on Commodity Distribution in regard to the reported low number of beneficiaries at Anganwadis.

Where food is centrally processed, the food is cooked at the central or mini-kitchen based on the pre-determined number of beneficiaries and accordingly delivered to the school. However, in some instances, it is possible that the actual beneficiaries eating food may be less or more. Also in one instance a wrong container (different quantity) was distributed to a centre which was meant for another one and this affected the amount of food per beneficiary.

In some cases the physical count and book balance could differ. This could be for various reasons including losses which, while reported, are still awaiting removal authority from CARE. It could also be due to use of approximate ration measures.

However, these differences are usually rectified. The excesses are generally added back to the inventory by showing minus delivery and in rare cases of shortages when CARE is convinced of improper use, collectible claims are filed.

Commodity Reports:

As agreed with the auditors, the stock balances at the Central/Mini kitchens and DMOs will be included in the future CSRs.

It is true that CARE did not collect the RSR data for MDM program for FY 1988 as that program was expected to be phased out and USAID had been informed accordingly. However, the data for ICDS RSR for FY 88 was collected and processed. The data collected and final reports are available but were processed on a Radio Shack computer, which is no longer in use.

Subsequently when the program life of MDM was extended we reinstated the normal RSR.

Arithmetical or human error noted by the auditors in the data collected in Karnataka and Maharashtra are minor and would not substantially affect the RSR. However, we have again reemphasized to the concerned people the need to collect the data correctly.

Recommendation 4 - We believe the recommendation is very sweeping and implies that proper records showing actual operations are not maintained at any of the blocks or feeding centres. In a meeting with the auditors, they agreed that they did not intend to imply this. Rather it only refers to those places where that is so.

Recommendation 5 - "reconcile in transit inventory on a more timely basis" - This is reconciled every month at the time of preparation of MIS.

B. PROGRAM OVERSIGHT

Block/Circle Reviews of Feeding Centres - It is true that in some blocks the full complement of Government staff was not available. CARE does bring such instances to the notice of the concerned state governments for appropriate action. We agree that it needs to be done in a more systematic manner and even

before the audit had already initiated action on a system to do this. This can be verified by the auditors should they want to do so.

CARE State Office Review of Blocks/Circles and Feeding Centres

CARE-Karnataka's review of blocks was slightly less than the requirement during the year 1989, but it exceeded feeding centre visit requirement during FY 1990 and visits to districts and blocks averaged 2.7 times against the required 3 visits. CARE headquarters had also been monitoring and writing to the state offices concerning this.

Although the auditors have mentioned a 6 per cent feeding centre visits requirement that is only an internal requirement; it is only 3% as per our understanding with USAID. Copies of letter No. CARE-USAID 7364 dated December 7, 1982 and USAID's reply dated December 16, 1982 are attached. During FY 1989 and FY 1990 actual visits to feeding centres in the three states exceeded even the target of 6% and visits to Districts and Blocks were only marginally less than the requirement of three visits to each district and block.

Given below are the visitations details for FY 1989 and FY 1990.

	Districts/Blocks			Feeding Centres		
	Total No.	Actual Visits	Frequency	Total No.	Actual Visits	Percentage
Oct.88-Sept.89	651	1836	2.82 times	39,934	3361	8.4%
Oct.89-Sept.90	646	1916	2.96 times	41,267	3391	8.2%

All India visit figures for FY 1990 were 3.3 times for districts and blocks and feeding centres visited were 7%. These exceed the requirements set by CARE and in the case of feeding centers are more than double the USAID requirement.

Page 31 of the Draft Audit Report mentions that 6% feeding centre visit requirement per state was met. However, Page 30 mentions that the number of reviews performed were not as per the requirements. This contradiction needs to be reconciled. CARE's internal 6%

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requirement is state-wise and not block-wise; as such we should not be held responsible for a 6% number of visits for each block which has never been a requirement by anyone.

The differences between the opening and closing balances mentioned in the Field Officer's report can be for various reasons, including human error. However, these are normally picked up by the food inventory persons in the state offices and rectified. The Field Officers also consult their previous visit report during their subsequent visit and if there was any error between the opening and closing balances of the block in the FO's report, it is corrected. However, there is always scope for improvement.

It may be difficult for CARE to formally comment on the quality of state government officials' review reports of ICDS programs. However, during normal discussions CARE personnel do bring any deficiency to the notice of the concerned state government officials.

Empty Containers: There appears to be some misunderstanding that each and every empty container generated will be available for sale. In certain interior areas, these cannot be sold because there are no purchasers or they are used by the beneficiaries or feeding centres for various purposes such as seating mats.

All the state governments maintain records on the empty containers sold as per government procedures. However, sometimes it is difficult to get old records (1 to 3 years old) without any advance information, and for the old records one has to follow-up which might take more than one visit. However, during normal visits to the blocks and feeding centres FOs do review the empty container accounts.

We beg to differ with the Auditors on pre-project surveys. CARE FOs do visit new projects before supplying Title II commodities to them. The difference may be in what the auditors expect from such visits. A new program takes time to function optimally but we do visit them prior to initiation of food supply.

There is no specific requirement either by CARE or government to maintain commodity flow charts. We do encourage maintenance of such charts, however. Blocks do maintain a Register for allocation of food commodities.

All CARE state offices do maintain a follow-up register. This register includes all exceptions noted by the FOs during their field visits and we believe in general that

adequate follow up is undertaken. We understand that in two of the three states these were not current. All state offices are being reminded to maintain the register up to date and this will be reviewed by HQs staff on visits.

CARE's New Delhi Office Reviews of Various States

The reviews are made by various CIHQ concerned personnel and the external auditors for internal review as required by AID Regulation 11. The scope of the internal review is always concurred with by USAID before any contract is awarded to the outside auditors. We agree that it is necessary to establish what is an adequate number. We ourselves had requested an increase for Orissa, for example. One might also question the low percentage of centers visited by the auditors in coming to the conclusions contained in this audit report.

Old interior claims pending - West Bengal: CARE-West Bengal provided a list of pending losses as of March 31, 1990. As of that date there were 406 outstanding claims, valued at approximately \$ 19,742 (Rs.355,393). However, as of January 1991 there are only 9 pending claims valued at \$ 663. West Bengal had significant turnover of personnel during the period which contributed to the delinquency.

Recommendation 4 & 5 - "State officials" we believe should be changed to CARE state officials.

C. COMMODITY WAREHOUSING

As per the audit report, the warehousing facilities were satisfactory in two of the three states. However, various photographs shown in the report on warehousing reflect only improper storage. In order to put the matter in perspective, we request the Auditors to include some photographs of good storage as well.

Damaged Packages

CARE has long had and has, from time to time, reissued instructions to all districts and blocks for reconstitution of damaged commodities.

Fitness/Infestation - We understand from CARE West Bengal that 240 CSM bags and 800 CSB bags appeared in sound condition with slight infestation in some of the bags and as such they were despatched. Commodity with slight infestation can be cleaned and used for feeding. Instructions have been issued to all the feeding centres by the State Governments and CARE that they should not use any unfit commodities.

Dunnage, Stacking and Segregation: The purpose of dunnage is to ensure that no moisture from wet and damp floors affects the stored commodities. Generally for that purpose some dunnage is used by the concerned warehouses or stores - this can be wooden planks, empty containers, tarpaulins, bamboo mats, polythene sheets etc. Provision of such dunnage helps lessen damage caused by moisture. Sometimes, if the godown floors are good, and if the commodities are stored for a short duration, then dunnage may not be necessary. We agree, however, that ideal dunnage is wooden pallets.

We believe most of the district/block godowns follow adequate storage practices compared to commercial practices in India. Obviously, they can be improved but this needs, again, to be put in the perspective of the conditions in rural India. The significant point to emphasize is whether, given less than ideal conditions, most of the food is used for the intended purposes and there is general agreement that it is.

Stock Rotation: Probably this means that 'first-in first-out' procedures were not being followed and the auditors have pointed out four blocks in Karnataka and West Bengal states where this is so. Although instructions have been issued from time to time by CARE and concerned state governments, this does happen sometimes because of warehouse design or inexperience.

The Audit Report mentions that Sukhada bags did not have any number or date of manufacturing. This was for a very short time period. All bags of Sukhada from the Dugadphada plant have always had markings showing the date of manufacture, name of the commodity and publicity requirements etc. It was also being done by the Chandrapur plant. However, for a short duration they ran out of indelible ink and they could not procure it locally. Subsequently it was supplied from Bombay and they have restarted the markings.

C & F Agent's Warehouses in Calcutta - They are generally good and proper storage practices are followed. However, because of delayed lifting of commodity by two states, they had more commodities in storage than the capacity of the godown.

We would like to add one comment that does not relate specifically to the recommendations but rather to the summary section. Although this section says that in general the program was being run properly, CARE believes that more positive wording which was used by the auditors both verbally and in writing does not appear in the summary section and rightly should be there. For example, in the letter to AID dated December 28 forwarding the draft audit it says "You will note that overall the operations of CARE

were good....". In addition, in several of the exit conferences at state level and in the final exit conference the auditors said that the operations in general were good and, in fact, for the ICDS program the word excellent was used. However, not even the word "good" appears in the audit report. CARE believes that since this was an opinion expressed by the auditors both in writing and verbally elsewhere, that this observation rightly belongs in the audit report as well.

C:COMMENT/A:COMMENT(DISK SP-3, DISK SP-5)

RCB:FC:tsr

19.2.91



UNITED STATES AGENCY for INTERNATIONAL DEVELOPMENT

NEW DELHI, INDIA

FAX # 065-226-1195

MAR. 5 1991

MEMORANDUM

TO: Mr. James B. Durnil - RIG/A/Singapore
FROM: Walter G. Bollinger - USAID/New Delhi
SUBJECT: CARE Draft Audit - Mission Comments

The following are the Mission's comments on the CARE draft audit:

1. General Comment

The Mission endorses the audit summary conclusion on page 5 that "CARE had ensured that food was being provided to the needy in line with A.I.D. requirements, that most parts of the program were being properly managed by many dedicated CARE personnel and that the feeding center workers were operating towards achievement of the program objectives." In light of the fact that the CARE Title II commodities are consumed daily at more than 140,000 feeding sites, these achievements are particularly encouraging.

The majority of the feeding centers are located in extremely poor, remote villages where the responsibility for a multi-faceted MCH/child care program, including the feeding component, is vested in a woman from the village earning \$13.00 per month. The record-keeping and other problems identified in the audit as occurring at the village level should be viewed from this perspective. While improvement is possible, these problems will always exist to some extent. The overriding objective is to ensure that the food reaches the intended beneficiaries. For the CARE Title II program, this is clearly being achieved.

2. Section entitled "Commodity Distributions and Accountability"

A. On page 14, third sentence of the first paragraph reads, ".....As a result, the target beneficiaries did not receive the proper amount of commodities, the extent of losses could not be reasonably assessed, absenteeism was not recorded, and the accuracy of attendance and inventory records was questionable."

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The Mission believes the underscored portion of this sentence should be deleted since the anganwadi worker generally prepares the daily meal based on the number of children in attendance the previous day, as per the GOI guidelines. The children do get fed their prescribed ration although the amount may be marginally higher or lower.

In general, we request that the entire paragraph, of which this sentence is a part, be more explicit in noting that the deficiencies reported, while they should be improved upon, do not significantly impact on the critical mandate of feeding the target beneficiaries. In this regard, please see the Mission's general comment on the audit.

In accordance with the above, the Mission requests the deletion of the first part of recommendation 1 on page 28, which reads, "Ensure that the correct quantities of food are distributed to the targetted beneficiaries." The beneficiaries are fed the correct amounts of food when it is available. The second part of recommendation 1 and recommendation 2 addresses the situation where there is not sufficient food on hand.

- B. Under the sub-section entitled "Reporting Commodity Issues", the Mission requests that consideration be given to adding the following sentence to the end of the second paragraph on page 23, "Suitable monetary and/or quantitative thresholds may be needed whereby CARE is not required to examine minor losses reported prior to approving a write-off." This same sentence would then be added to recommendation 3 on page 28.

This addition reflects the fact that, at the feeding centers, the inventory kept on hand is small. Accordingly, any losses at this level will also be limited and, in the interest of management efficiency and effectiveness, CARE should be allowed to write them off without review up to some agreed upon amount.

cc: APRE/FPM, AID/W

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LIST OF ABBREVIATIONS

B/W	-	Bulgur Wheat
CSB	-	Corn Soya Blend
CSM	-	Corn Soya Milk
C&F	-	Clearing and Forwarding Agent
CARE	-	Cooperative American Relief Everywhere
FIFO	-	First In First Out
GOI	-	Government of India
ICDS	-	Integrated Child Development Scheme
MDM	-	Mid-Day Meals
USAID	-	Office of United States Agency for International Development, New Delhi (The Mission)



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