

Regional Inspector General for Audit  
Bonn

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# Audit of the Vulnerable Groups Assistance Program in Russia under Project No. 110-0001

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Report No. 8-110-93-08  
September 24, 1993



# **AUDIT OF THE VULNERABLE GROUPS ASSISTANCE PROGRAM IN RUSSIA UNDER PROJECT NO. 110-0001**

**Report No. 8-110-93-08  
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**A.I.D. obligated approximately \$15 million for the "Vulnerable Groups Assistance Program" (VGAP) to provide whole and non-fat dried milk powder for Russian "vulnerable groups". The audit found the following:**

- **The NIS Task Force took adequate steps to ensure that the VGAP would have its intended effect.**
- **The anticipated food crisis did not materialize; but the eligible recipients appreciated the milk powder as it enabled them to buy food that would otherwise not have been bought.**
- **Because less food was purchased than planned and in different units, the number of intended recipients assisted will be less than planned and actual beneficiaries can only be estimated.**
- **Labels were ordered to mark the food as U.S. assistance, but the NIS Task Force did not monitor the situation to ensure that the milk was actually marked.**

**The audit also found that the Private Voluntary Organization (CARE) charged with the milk powder receipt, storage and distribution, complied with its agreement with A.I.D.**

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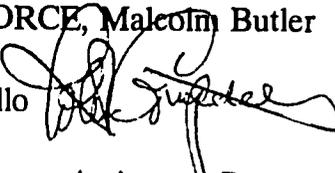


U.S. AGENCY FOR  
INTERNATIONAL  
DEVELOPMENT

September 24, 1993

**MEMORANDUM**

**TO:** DIRECTOR, NIS TASK FORCE, Malcolm Butler

**FROM:** RIG/A/B, John P. Competello 

**SUBJECT:** Audit of the Vulnerable Groups Assistance Program in Russia under Project No. 110-0001 (Audit Report No. 8-110-93-8)

Enclosed are ten copies of our report on the subject audit. We considered your comments on the draft report and included them in Appendix II. We also acknowledge receipt of the representation letter that was provided and which we found to meet our needs. This letter is also in Appendix II.

The report contains one recommendation for your action which is considered resolved. The recommendation addresses the need for the NIS Task Force to ensure that U.S. food assistance for Russia and other NIS countries is publicized through suitable markings or other means. In deciding to resolve rather than close this recommendation as you requested, I considered your comments and actions taken in regard to my August 30, 1993 memorandum to Larry Crandall on the \$30 million Mothers and Children Food Program (MCFP) in the NIS. Your efforts to publicize the food assistance in the MCFP using banners, handouts and so on, as being provided by the United States is an appropriate approach, but you mention that you were unable to get a portion of that food marked. Apparently, you ordered "USA P.L. 480" markings, but those efforts were unsuccessful and the NIS Task Force is now investigating this situation. Therefore, I need to wait until you have (1) resolved the problem with the current program and (2) issued an appropriate Task Force Order before closing this recommendation.

Please respond to this report within 30 days, indicating any actions planned or taken to implement the recommendation. I appreciate the cooperation and courtesies extended to my staff during the audit.

# Commonwealth of Independent States



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## **Background**

The FREEDOM Support Act designated a coordinator in the U.S. Department of State (State) to, among other things, design an overall assistance program for the Former Soviet Union/Newly Independent States (NIS), ensure program/policy coordination among U.S. agencies involved in the NIS assistance programs, and ensure proper management, implementation and oversight by these agencies. The Agency for International Development (A.I.D.) formed the NIS Task Force to manage its NIS programs. A.I.D. began its program in the NIS with the Special Initiative Project (110-0001), which was designed to support the NIS transition toward democracy and economic freedom utilizing activities with quick response capabilities. One of project 110-0001's four components is Emergency Humanitarian Assistance.

Under the Emergency Humanitarian Assistance component, A.I.D. obligated about \$15 million for the "Vulnerable Groups Assistance Program" (VGAP) to provide whole and non-fat dried milk powder for Russia. The purposes of the program were to: 1) respond to an anticipated milk shortage in the Winter/Spring 1993 seasons in Russia, 2) provide milk to targeted groups in specified numbers and geographical regions, and 3) show U.S. support for Russia's transition to a democracy. The initial targeted groups for the milk powder were infants and pregnant and lactating women in Russia; subsequently, pensioners and large families were added as targeted groups.

Several U.S. agencies and private organizations participated in the design, implementation and monitoring of the VGAP. For example, State awarded a contract to the Fund for Democracy and Development (the Fund) who facilitated the transportation of the milk powder. The U.S. Department of Agriculture/Commodities Credit Corporation (USDA), under an Inter-Agency Agreement (IAA) from A.I.D., was responsible for procuring the milk powder. And, CARE, a Private Voluntary Organization, was responsible for the receipt, warehousing and distribution of the milk powder. The NIS Task Force chose CARE because of CARE's long experience in the distribution of humanitarian food commodities. Also, A.I.D. field presence was just being established at the start of this activity; another reason why the NIS Task Force selected CARE. USAID/Moscow was given no management or monitoring responsibilities for the VGAP. Under A.I.D. funding, as of June 30, 1993, the total obligations and reported expenditures for USDA were \$13,966,000 and \$13,631,595, respectively. And for CARE, there were obligations of \$1,227,854 and reported expenditures of \$1,034,000.

The original anticipated timeframe of the VGAP was October 1992 through June 1993, which covered the period of the anticipated food shortage. The milk powder

was produced from October 1992 through January 1993 and subsequently procured and delivered. Distribution began in January 1993 and although essentially completed in June 1993, the NIS Task Force extended the program to August 31, 1993, to allow for distribution of any remaining food.

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## **Audit Objectives**

Based on RIG/A/Bonn's Revised Fiscal Year 1993 Audit Plan, we audited the VGAP to answer the following audit objectives:

1. Has the NIS Task Force taken adequate steps to ensure that the Vulnerable Groups Assistance Program is having its intended effect?
2. Did CARE, a Private Voluntary Organization assigned the responsibility of carrying out the Vulnerable Groups Assistance Program, achieve the purpose of its agreement?

Appendix I contains a discussion of the scope and methodology for this audit.

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## **Audit Findings**

### **Has the NIS Task Force taken adequate steps to ensure that the Vulnerable Groups Assistance Program is having its intended effect?**

Except for monitoring to ensure that the food was marked to show U.S. support, the NIS Task Force took adequate steps to ensure that the Vulnerable Groups Assistance Program would have its intended effect. Notwithstanding NIS Task Force actions, however, changes in the 1) anticipated food conditions in Russia, 2) quantity of milk supplied, and 3) portions provided for recipients, altered the intended effects of the program. The program was originally intended to alleviate anticipated food shortages, reach about 936,250 identifiable recipients, and demonstrate U.S. support for Russia's move to democracy. Although the food was properly delivered and distributed, several key factors used in design and planning changed during implementation and resulted in a program which could not be measured against its original design. Also, the NIS Task Force could have better monitored the program to ensure that commodity marking requirements were completed to better illustrate U.S. support.

## **Russian Food Crisis Did Not Materialize**

The basis for the milk program was given in the "Potential Food Deficit Areas in Russia Winter/Spring 1993 Period" report.<sup>1</sup> This report concluded that Russia's vulnerable groups (defined as: pensioners, invalids, mental patients, single parent families, large families with more than three children, the unemployed and the homeless) would need milk products due to shortages in the milk supply. A.I.D.'s grant agreement with CARE states that the purpose is: "to provide support for a feeding program for poverty group pregnant and lactating mothers and children in [Russia]."

The anticipated food shortage did not materialize according to USDA, State, NIS Task Force and CARE officials. In talking with recipients of the milk powder in Russia, they told us that the milk was very much appreciated. Both individual and institutional recipients told us that the food allowed for an economic offset enabling them to purchase other food (such as meat) that would have otherwise not been bought. Institutional recipients also said the milk powder had an advantage because it did not spoil as rapidly as fresh milk and allowed them to keep a reserve on hand. In commenting on this point, the NIS Task Force stated that in a deep economic crisis with pronounced impact on particular segments of the population, distribution of nutritious foods such as dried milk was viewed as an income supplement targeted on the most vulnerable. It was for this reason, they commented, that the CARE agreement specifically targeted poverty and needy groups. {See photos A and B of vulnerable groups receiving milk powder.}

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<sup>1</sup> The report was prepared in conjunction with an international conference held in September 1992 and was an assessment of the appropriateness of international food aid for Russia. It was prepared by the United States and Japan and was coordinated with certain European countries, Canada and CARE.



**A: Vulnerable Group Receiving Milk - Moscow Orphans (May 1993)**



**B: Vulnerable Group Receiving Milk - Large Families  
(St. Petersburg Distribution Center, May 1993)**

### **Whether Target Groups Were Reached Cannot be Accurately Determined**

The Grant Agreement between A.I.D. and CARE called for the feeding of approximately 936,250 people: 75 percent of these were to be pregnant and lactating mothers and children. Also, 60 percent of the milk was to be distributed in the Urals (Perm and Ekaterinburg) with the remainder in Moscow and St. Petersburg. Because A.I.D./USDA changed both the quantity of milk provided and the portion size, CARE can only estimate the total number of people reached and if 75 percent of the people were pregnant and lactating mothers and children. On the other hand, as shown in the chart on page 8, 60 percent of the milk was distributed in the Urals.

CARE's original proposal, as incorporated into the Grant Agreement, called for 2 kg (4.4 lb) bags to be distributed for each individual recipient. CARE calculated the number of recipients to be served, 936,250, on the assumption that each individual would receive one 2 kg bag per month over a four month period. They then calculated the quantity of milk powder required, 7490 metric tons (MT), with this recipient distribution level in mind. However, USDA was only able to purchase about 5400 MT with the funds transferred and of this, 5392 MT of milk powder was actually received by CARE. Therefore, the intended recipient target was reduced to about 674,000 individuals.

CARE's plan and our evaluation as to whether the targeted groups were reached was thwarted when the milk arrived in 22.68 kg (50 lb) bags instead of the 2.2 kg bags planned for. After reviewing the program with CARE, we found that there will be no accurate way to measure how many individuals benefited from this program or whether the targeted groups were helped in the intended proportions, i.e., 75 percent to mothers and children. Because the milk powder was received in 22.68 kg (50 lb) bags, CARE had to change the portion to be distributed to recipients. CARE determined that a family with an eligible recipient should receive one bag and that institutions should receive bags based on current milk supplies and patient load. This meant for example, one bag might have gone to a pensioner or an unwed mother, whereas a large family with eight children would also receive the same size 22.68 kg (50 lb) bag. To make the distribution more equitable in one city (Ekaterinburg), CARE allowed city representatives to split the bags into two bags. In this case, each family received one or more bags depending on family size. CARE informed us, however, that this process was very difficult to monitor and there was some waste.

Because the milk was received in larger sized bags and CARE had to change the distribution pattern to individuals, CARE can only estimate the actual number of recipients. They are using an average of four recipients per bag for each individual

family that received milk, and an average of 10 recipients per bag for each institution that was supplied with the milk powder. Thus, the actual number of recipients will not be determined.

The large bag sizes created some individual hardship. Some recipients had difficulty transporting the 22.68 kg (50 lb) bag to their homes; whereas the 2 kg (4.4 lb) bags would have been easily carried. We found that the large bag was very difficult for some recipients to transport, especially for elderly pensioners. {See photo C illustrating the difficulty in transporting bags.}



C: Large Bag Size - Difficult to Transport  
(St. Petersburg Distribution Center, May 1993)

In commenting on the bag size, NIS Task Force and State officials stated that the 22.68 kg (50 lb) bag size was a market/economic trade off. According to them, the smaller 2 kg (4.4 lb) bags would have cost 23 percent more, and therefore, less milk could have been purchased with less people being helped. Also, there was a question of product availability within the program time-frame. When the milk was purchased, there were no 2 kg bags available; hence, if they waited until the milk was manufactured and packaged, they would have missed the Winter/Spring time period for the program.

The planned geographic dispersion of 60 percent to the Urals (Perm and Ekaterinburg) and the balance dispersed in Moscow and St. Petersburg was reached, but not in the quantities planned. The latest figures available show that CARE distributed more milk powder in the Urals and St. Petersburg than planned and less than planned in Moscow. The following table illustrates the latest information we received about the quantities of milk powder shipped and received. CARE's final report, originally due June 30, 1993, has been extended to August 31, 1993. At the end of this audit we had not received a copy of this report.

Location	Originally planned per Grant Agreement	Planned level reduced to actual shipped	Quantities received by CARE	Difference between planned and received
(quantities in Metric tons)				
Moscow	2500 (33%)	1822 (33%)	1054 (19%) <sup>1</sup>	-768
St Petersburg	1000 (13%)	728 (13%)	1128 (21%) <sup>1</sup>	400
Ekaterinburg	2000 (27%)	1458 (27%)	1561 (29%) <sup>2</sup>	103
Perm	2000 (27%)	1458 (27%)	1649 (31%) <sup>2</sup>	191
Total	7500 (100%)	5466 (100%)	5392 (100%)	-74

<sup>1</sup>/ Audited. <sup>2</sup>/ Unaudited.

The latest but unconfirmed reports from the NIS Task Force state that three milk containers that were misdirected have now been found. CARE was to distribute this remaining milk. CARE's warehousing losses were also small, thus it appears that the loss rate for the program was minimal.

### **U.S. Support Was Not Fully Demonstrated**

One of the purposes and objectives of the program was to show United States support for Russia's transition to democracy. Also, it is A.I.D. policy to suitably mark commodities supplied with the A.I.D. marking (label/emblem) to identify them as U.S. foreign assistance. While the NIS Task Force ordered labels to be placed on the bags of milk, it did not require CARE to put the labels on the bags. Also, the number of labels ordered was not enough for the number of bags. Finally, the NIS Task Force did not follow-up to ensure that the bags were labelled. CARE had produced some literature for posting at distribution centers and as handouts, but we found that some of the recipients did not know that the United States had provided the milk powder. Thus this objective of the program was not fully achieved.

**Recommendation No. 1: We recommend that the NIS Task Force issue instructions on the marking requirement for food distribution which ensure that sufficient labels are ordered and require monitoring to ensure that the food is actually marked to show U.S. support.**

One purpose of the program was to demonstrate United States support for Russia's transition to democracy. An objective of the program as described in the CARE grant agreement states: "Helping the most vulnerable of the needy groups in the NIS not only helps these families and individuals but also demonstrates faith in and support of the people of the United States for the transition to full democracy." Also, A.I.D. Handbook 1B, Chapter 22 states "It is AID policy that projects and imported commodities financed under the AID program be suitably marked to identify them as U.S. foreign assistance....'suitably marked' ...means marking with the USAID red, white, and blue emblem, and for shipping containers, marking in addition with the AID financing document number."

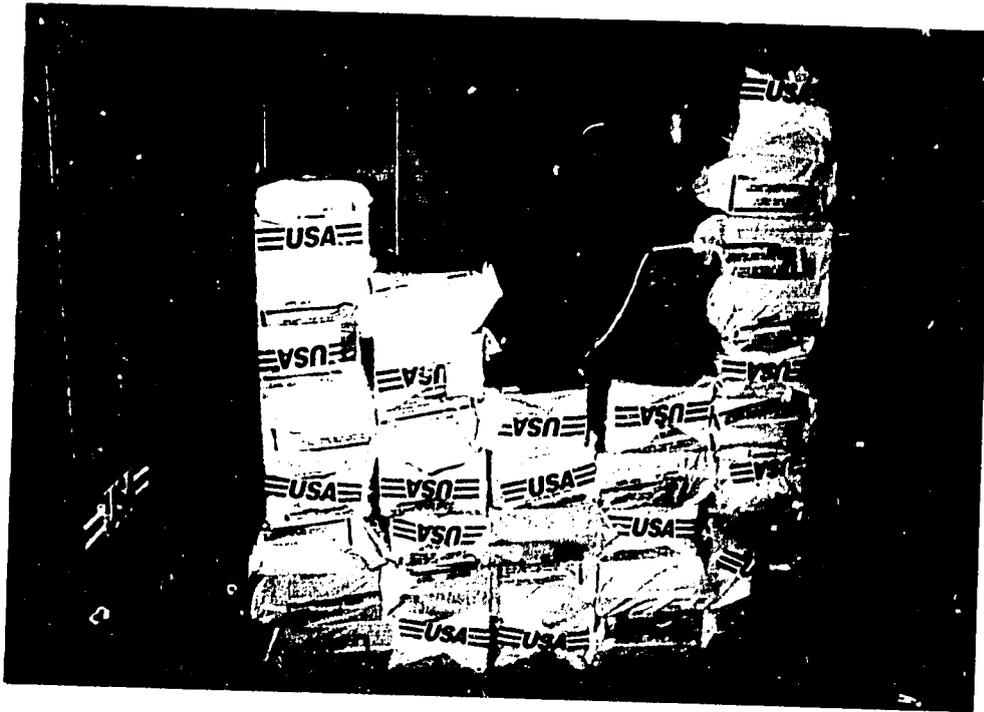
The IAA between A.I.D. and USDA called for the purchase of \$5,000 worth of U.S. Emblem (50,000) labels. The IAA stated that CARE would apply the labels before distribution in Russia. But CARE's Grant contained no requirement for the placement of labels. CARE-Moscow officials said when the 50,000 labels were received, they had no idea what these were for. Thus CARE used these labels in its program with the U.S. Department of Defense's (DOD) Operation Provide Hope III (surplus military food distribution) program. Therefore, none of the AID-financed milk powder distributed by CARE was marked with the A.I.D. labels. Yet, even if the labels had been received and applied, 50,000 labels would not have been enough for the some 240,000 milk bags delivered. {See photo D of a milk bag from the CARE/Moscow warehouse and photo E of DOD's food packages.}

While the NIS Task Force took the above steps to ensure the marking requirement was met, it fell short because it did not follow-up during the distribution to see that its intentions were satisfied. We contacted USAID/Moscow and asked about the marking requirements. They stated, and we subsequently confirmed, that they had no management nor monitoring responsibilities for the VGAP.

In talking with individual recipients, we determined that more than half of them did not know where the milk came from. Also, in St. Petersburg even though literature was posted in Russian at the distribution sites which explained that the milk was a gift from the people of the United States, most of the recipients we talked to were not aware that the milk was from the U.S. Government.



D: A.I.D. Supplied Whole-Dry Milk Powder Bags  
in CARE/Moscow Warehouse (April 1993)



E: U.S. Department of Defense Food Packages with A.I.D. Labels (Moscow Distribution Center, May 1993)

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**Did CARE, a Private Voluntary Organization assigned the responsibility of carrying out the Vulnerable Groups Assistance Program, achieve the purpose of its agreement?**

CARE received, stored and distributed the milk powder and maintained the applicable records as required by its agreement. However, because A.I.D./USDA changed both the quantity of milk provided and the portion size, CARE can only estimate the total number of beneficiaries and whether the milk powder reached the targeted groups in the planned percentages.

CARE's Grant Agreement with A.I.D. established a target to feed 936,250 people of which 75 percent would be pregnant and lactating mothers and children. Also established in the CARE Grant Agreement, CARE would handle the transportation and warehousing following the receipt of commodities in Russia. They would select beneficiaries, using lists maintained by the Russian Ministry of Social Protection, of the most needy persons in each category. And CARE would provide the logistical arrangements for transporting the commodities from the final shipping destination to

the final use point (60 percent of the food would be distributed in Ekaterinburg and Perm). CARE was also to monitor the end use of the food.

As discussed in the previous section, the key elements used in planning for the program changed during implementation. Notwithstanding those changes, we found that CARE carried out their responsibility for receipt, storage and distribution of the milk powder. For example, CARE—

- reviewed recipient distribution lists to determine reliability and requested changes where necessary,
- compared recipient names on final distribution lists to ensure the milk was actually received by the correct beneficiaries,
- provided logistical support for the milk powder from receipt to shipping destinations and monitored storage until it reached the final use points,
- worked closely with the Russian Commission for International Humanitarian and Technical Assistance to facilitate the necessary support to keep its control, storage and movement of the commodities unimpeded, and
- adequately stored and safeguarded the milk powder keeping the appropriate inventory/warehousing, receipt and distribution records.

### Management Comments and Our Evaluation

The NIS Task Force pointed out that although the draft audit report does not make a recommendation concerning the amount of food purchased and the size of the containers, the draft report unwarrantly implies that A.I.D. impeded the objectives of the program by supplying less milk powder and in larger units than requested by CARE. The NIS Task Force goes on to point out that utilization of 2 kg bags, as requested by CARE, would have reduced the available tonnage of milk powder by approximately 27 percent. This action, according to them, would have further reduced the number of beneficiaries. The NIS Task Force believes the ultimate objective of reaching the maximum number of beneficiaries was reached.

Our comments on the size of bags used and the effect of the portion size used versus requested are to demonstrate that the larger bag size made it infeasible for CARE to accurately measure the number of beneficiaries reached. Also, we needed to point

out that the change in size requested and delivered made the portion given to beneficiaries somewhat unreasonable. Further, the bag size delivered made measuring the number of children, pregnant and/or lactating mothers in the percentages called for in the Grant Agreement impractical. Finally, the bag size was a hardship on the elderly and some single mothers.

The NIS Task Force commented that it was pleased with the audit finding that CARE did a good job. It agreed with Audit Recommendation No. 1 for issuing instructions on marking requirements for food distribution. Concerning why the food bags were not marked, even though labels were ordered, the NIS Task Force explained that it had inadvertently left out the proper clause in the CARE agreement during the rush to get this emergency program underway. Also, there was a breakdown in communications on the marking of the bags.

The NIS Task Force stated that it would ensure that future food assistance agreements included the standard instructions for labeling. Also, the NIS Task Force would provide in each memorandum authorizing food distribution activity, who within the NIS Task Force was primarily responsible for monitoring. The NIS Task Force requested that the audit recommendation be closed upon issue of this report because of its stated commitment to correct the markings issue.

Although we agree that the cited actions should better ensure that U.S. food assistance is appropriately marked, we cannot close the recommendation until final action is completed. While final action in this case would be the issuance of a Task Force order specifying the framework to comply with marking requirements in the future, the current situation is more complicated because of an ongoing \$30 million food program in the NIS, referred to as the Mothers and Children Food Program (MCFP). Although we did not audit this program, we conveyed our concerns regarding overall accountability and marking of the food assistance in an August 30, 1993, Manager-to-Manager memorandum to the Deputy Director for Operations, NIS Task Force. In a September 15, 1993 response, the Director, NIS Task Force told us that several steps had indeed been taken to publicize the food assistance as having come from the United States. These efforts included the use of banners and handouts at food distribution points and the specific marking of a portion of the food (corn-soy-blend), the latter accounting for 18 percent of the volume and 2 percent of the value of the total food being delivered.

However, despite its attempts to have the corn-soy-blend marked with the usual "USA P.L. 480" markings, the NIS Task Force told us that this food being delivered in the NIS did not have the markings. The NIS Task Force was still in the process

of investigating this situation when we processed this final report. The recommendation will be closed when the NIS Task Force completes its inquiry into the current problem in marking of the MCFP food and issues an appropriate Task Force order to ensure corrective action in the future.

One final point. In our view, both the VGAP and the MCFP represent rather non-traditional ways in which A.I.D. has delivered food assistance. Rather than being provided under the more usual P.L. 480 programs with its defined regulations, these programs were part of congressional earmarks separate from P.L. 480 legislation. A.I.D. was only one of several U.S. Government agencies involved (others included the Departments of State and Agriculture) as well as several U.S.-based Not-for-Profit organizations and several host governments. The ensuing management structure was, in our opinion, very complicated and thus in need of basic agreements among all parties. Had these agreements been entered into prior to program implementation, we doubt that there would have been the problems associated with the marking of some of the food discussed in this report. We believe the involvement of other agencies in food assistance programs such as the VGAP and MCFP require that, for its part, the NIS Task Force clearly establish A.I.D. marking requirements at the onset of the program and assign monitoring responsibilities for these actions. Also, with the maturing of A.I.D. missions in the NIS, the NIS Task Force should consider assigning monitoring responsibilities in the field where the food is actually being delivered and distributed.

## SCOPE AND METHODOLOGY

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### Scope

We audited the Vulnerable Groups Assistance Program (VGAP) under Project No. 110-0001 (Special Initiative Project) in accordance with generally accepted government auditing standards. We conducted the audit from April 6, 1993 through June 24, 1993. As of June 30, 1993, \$14,237,440 had been disbursed for this program. We conducted our field work in the Washington area at A.I.D., State and USDA offices and in New York at the CARE office. In addition we visited Moscow, Russia to have discussions with CARE, USAID/Moscow, State, and USDA representatives. We also visited St. Petersburg, Russia to meet with CARE and State representatives. We performed audit work in both locations. In Russia, we made site visits to Department of Defense food distribution operations, CARE operations, and various food and milk distribution centers. We also went to selected institutions receiving the milk as well as recipient homes. We reviewed relevant documents and internal controls used for the period October 15, 1992 through June 30, 1993. The review of internal controls pertained more to CARE operations because the NIS Task Force's role was limited to monitoring the VGAP. We discussed the NIS Task Force's monitoring controls and found that except for the control on marking requirements, they were generally acceptable.

Documents used in answering our audit objectives included A.I.D. Handbook 1B, the A.I.D./CARE Grant Agreement, the A.I.D./USDA Inter-Agency Agreement (IAA), a Memorandum of Understanding between CARE and the Russian Commission on International Humanitarian and Technical Assistance, various forms of correspondences, progress reports from A.I.D., CARE, USDA, and the Fund and interviews and memorandums from all of the above sources. When necessary, we verified relevant documents and interview responses using comparisons or secondary documents/follow-up methods. Prior audit reports concerning food programs were used in the planning stage to give us background on food programs and other CARE audits.

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## Methodology

In answering the two audit objectives, we performed audit steps as follows:

We gathered documents such as the CARE Grant Agreement and the USDA IAA. We gathered the latest progress reports from A.I.D., CARE, the Fund, and State about quantities purchased, shipped, received in country, stored in warehouses, and distributed to individuals or distribution points. We read and analyzed these documents to gain an understanding of the food program in the NIS and to prepare questions for interviews. We performed interviews of officials in the above mentioned organizations and agencies. We then visited the USAID/Moscow office, CARE offices, warehouses, and distribution centers in Moscow to determine progress and their systems for implementation and monitoring.

We also visited the CARE offices, warehouses, and distribution centers in St. Petersburg to determine progress and their systems for implementation and monitoring. In terms of testing and sampling, we reconciled the various CARE distribution and Russian official documents in comparison to the actual physical count of the milk bags. And, we sampled over 10 percent of the CARE waybills and shipping documents (using random judgmental sampling techniques), to test the accuracy of the CARE reports and use/reliability of their internal control methods. Of the 5392 MT of milk powder reportedly received by CARE, our review covered 2182 MT or 40 percent. From this, we tested the actual receipt at seven institutions and six individual families. We also reviewed records at four intermediate distribution points. In addition to these sites, we visited two milk warehouses and a local government administrative office. Of the 20 locations visited, CARE representatives chose nine locations and we selected eleven locations.



U.S. AGENCY FOR  
INTERNATIONAL  
DEVELOPMENT

AUG 19 1993

Director  
Task Force  
for the New  
Independent States

TO: John P. Competello, RIG/A/BONN  
FROM: Larry *for* *Grandall*, Acting  
SUBJECT: Draft Report for the Audit of the Vulnerable Groups Assistance Program in the Newly Independent States (NIS) Under Project No. 110-0001 (Audit Report No. 8-110-93-xx).

The NIS Task Force has reviewed the subject draft report and provides the following Management response.

The Task Force is pleased with the Audit findings that CARE did a good job in receiving, storing and distributing the milk powder. It was due to CARE's long experience and impressive track record in the distribution of humanitarian food relief commodities that it was specifically selected to undertake this activity.

Also, the Task Force accepts the draft Audit Reports's Recommendation No. 1 that it "issue instructions on marking requirements for food distribution which ensures that sufficient labels are ordered and requires monitoring to ensure that the food is actually marked to show U.S. support."

In the rush to respond to what at the time was considered an emergency situation, instructions which are normally a standard provision in grant agreements of the type executed for this activity were inadvertently left out. The draft Audit Report does correctly point out, however, that labels were indeed ordered but never fixed to the commodities due to a breakdown in communication between ourselves and the grantee. In the future, the Task Force will take steps to insure that the standard instructions for labeling are included in all future agreements where commodities are being delivered.

The Task Force will also clearly spell out in each memorandum authorizing a food distribution activity where primary monitoring responsibilities lie within the Task Force for providing general oversight with regard to compliance with the terms of any agreement entered into thereunder. It should be noted that this particular activity was undertaken when our field missions were just getting established. Knowing that we did not have the field presence to monitor the distribution, the Task Force contracted with CARE and, as the draft Audit Report points out, the activity substantially met its objective.

Based on the Task Force's commitment to insure all future agreements for the delivery of commodities contain clear instructions regarding labeling requirements and that the documents authorizing such activities clearly spell out the monitoring responsibilities, the Task Force requests that Audit Recommendation No. 1 be closed upon the issuance of the final Audit Report.

Although the draft Audit Report makes no recommendations relative to the amount of food purchased and the size of containers, it unwarrantedly implies that AID impeded the objectives of the activity by providing less milk powder and in larger units than requested by CARE. The number of ultimate beneficiaries was a factor of the amount of available funding and the market price of powdered milk at the time of purchase. The 936,250 target in CARE's original proposal was an illustrative figure based on CARE's initial cost estimates - which later proved to be invalid. The ultimate objective of the activity was to provide assistance to the maximum amount of beneficiaries as possible. The Task Force believes this objective was achieved.

Secondly, as pointed out in the "Exit Memorandum" of 6/23/93, as well as on page 6 of the draft Audit, utilization of 2 kg bags, as requested by CARE, would have reduced the available tonnage of powdered milk by approximately 27 percent. This would have reduced the number of beneficiaries to approximately 492,000 as opposed to the approximate 674,000 which were ultimately assisted. The Task Force thus believes that the utilization of 50 lb. bags was a sound and appropriate decision in the interest of maximizing the number of beneficiaries in pursuit of activity objectives.

A Representation Letter, signed by Alan Silva and myself, is attached.

Attachment: a/s

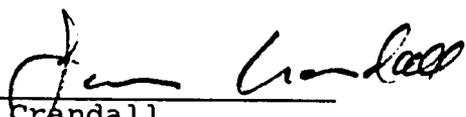
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AUG 19 1993

TO: RIG/A/Bonn

This representation letter is issued in connection with your Audit of the Vulnerable Groups Assistance Program in the NIS. Your audit was conducted between April 6, 1993 and June 24, 1993. As of August 13, 1993, and to the best of our knowledge and belief, we confirm the following representation made to you during your audit:

1. We have asked the most knowledgeable, responsible members of our staff to make available to you all records in our possession for the purposes of this audit. Based on the statements made by these individuals, of which we are aware, and our own personal knowledge, we believe that those records constitute a fair representation as to the status of the Program. Please note that faxes, notes and other informal communications, which are not part of the official files, are not systematically kept by our office.

  
\_\_\_\_\_  
Larry Crandall  
Acting Director, NIS Task Force

  
\_\_\_\_\_  
Alan Silva  
Director, NIS/TF/EHA

**APPENDIX III**

**REPORT DISTRIBUTION**

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Controller, NIS Task Force	1
Mission Director, USAID/Moscow	1
Controller, USAID/Moscow	1
Office of Press Relations (XA/PR)	1
Bureau for Legislative Affairs (LEG)	1
Office for General Counsel (GC)	1
Associate Administrator for Operations (AA/OPS)	1
POL/CDIE/DI, Acquisitions	1
Associate Administrator for Finance and Administration (AA/FA)	1
Office of Financial Management (FA/FM)	1
FAMCS	2
FA/FM/FPS	2
USAID/Kiev	1
USAID/Almaty	1
USAID/Yerevan	1
IG	1
AIG/A	1
D/AIG/A	1
IG/A/Special Reports	3
IG/LC	1
AIG/RM	12
AIG/S&I	1
RIG/A/Cairo	1
RIG/A/Dakar	1
RIG/A/Nairobi	1
RIG/A/Singapore	1
RIG/A/San Jose	1

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