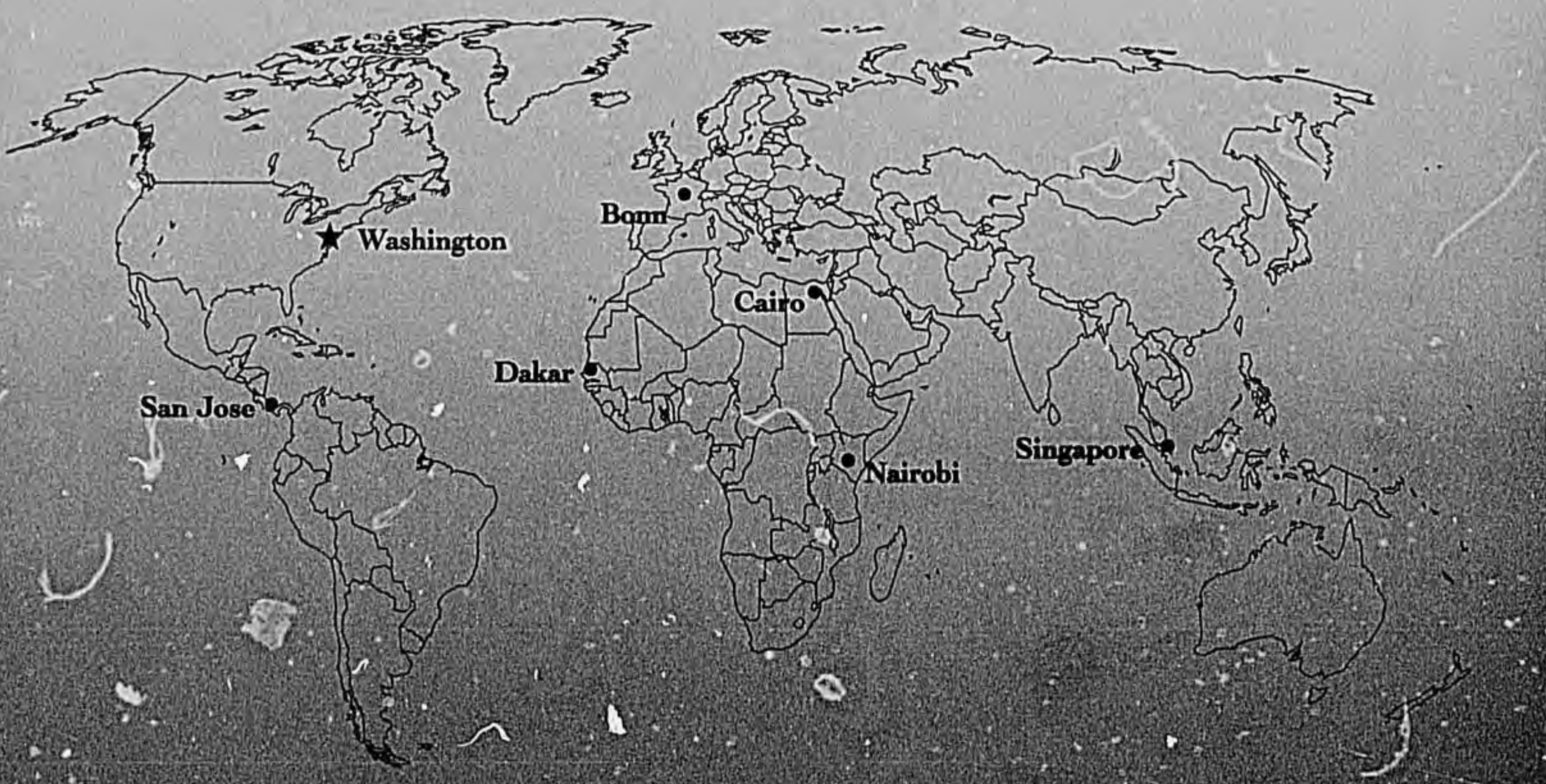
Regional Inspector General for Audit
San José, Costa Rica

Audit of the Public Law 480 Title II Commodity Program and Support Agreements Managed by International Lifeline, Inc. September 6, 1991 to September 30, 1993

Audit Report No. 1-521-95-01-N
October 6, 1994



Financial information contained in this report may be privileged. The restrictions of 18 USC 1906 should be considered before any information is released to the public.

INSPECTOR GENERAL

U.S. AGENCY FOR INTERNATIONAL DEVELOPMENT

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OFFICE OF THE REGIONAL INSPECTOR GENERAL
SAN JOSE, COSTA RICA

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October 6, 1994

MEMORANDUM

TO: Director USAID/Haiti, Larry K. Crandall

FROM: RIG/A/San Jose, Coinage N. Gothard Coinage N. Gothard

SUBJECT: Audit of the PL-480 Title II Commodity Program and Support Agreements Managed by International Lifeline, Inc., September 6, 1991 to September 30, 1993

This report presents the results of a financial and commodities audit of the PL-480 Title II Commodity Program and Support Agreements managed by International Lifeline, Inc. (IL) for the period September 6, 1991 to September 30, 1993. The audit firm of Deloitte & Touche LLP, Washington, D. C., prepared the report dated August 5, 1994.

In March of 1991, the U.S. Agency For International Development approved a PL-480 Title II Food for Peace Program with IL. The purpose of the program was to transfer food commodities to this cooperating sponsor for use in disaster relief, economic development, and other assistance. Under the terms of this agreement several fiscal year consignments of various commodity types were provided to IL. The organization also received various types of food commodities transferred to them from three other PL-480 Title II Food For Peace cooperating sponsors in Haiti. To implement the program, IL was also furnished funding under five separate cooperative agreements.

The program was terminated, effective September 30, 1993, via a termination letter issued by USAID citing IL's failure to implement the PL-480 Title II program as agreed to in the Operational Plan and Regulation 11. The termination letter cited IL's failure to achieve five primary objectives. During the period audited, IL received USAID funds of $1,648,000, of which it reported disbursements of $1,553,000 under the

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program. IL also received PL-480 Title II commodities totalling approximately $4,300,000.

The objectives of the audit were to determine whether: (1) IL's fund accountability statement presents fairly, in all material respects, IL's receipts and expenditures under the agreements, (2) IL's commodity accountability statement presents fairly, in all material respects, the status of PL-480 Title II commodities managed by IL, (3) IL's internal control structure was adequate to manage its agreement activities, and (4) IL complied with the terms of the agreements and applicable laws and regulations. The scope of the audit included an examination of IL's activities and transactions to the extent considered necessary to issue a report thereon for the audit period.

Deloitte & Touche reported several material weaknesses in the internal control system for the fund accountability statement, as detailed below. Because of these weaknesses, as well as the refusal of IL management to furnish representations relative to financial reporting, management, and the operation of IL, Deloitte & Touche disclaimed an opinion on the fund accountability statement. Deloitte & Touche was, however, able to do limited testing and identified certain specific transactions as questionable ($117,410 was identified as questioned and $122,122 was identified as unsupported).

In view of the disclaimer of opinion, the substantial number of internal control weaknesses identified, and IL management's refusal to provide key representations to the auditors, we consider all funding provided to International Lifeline under the agreements, in addition to the specific amounts identified above, to be questionable.

Concerning commodity management, Deloitte & Touche reported that neither IL nor the organization's independent auditors were able to prepare a commodity accountability statement. Deloitte & Touche found that IL did not have in place an adequate system of books and records nor an effective internal control system for commodities to capture and record commodity accounting transactions from the point of arrival until distribution to recipients at the feeding centers. IL management did not respond to requests from Deloitte & Touche to furnish written representations concerning commodity status reports submitted to USAID/Haiti. Under these conditions, Deloitte & Touche was unable to conduct a full scope audit of commodities transactions.

In lieu of such an audit we mutually agreed with Deloitte & Touche to limit further work to five specific areas, as detailed in the audit report. In conducting these tests Deloitte & Touche identified $722,893 in questioned commodity costs. However, since they were unable to conduct a full scope audit, they could not express an opinion on the remainder of the $4.3 million of commodity costs for which IL was responsible.

Regarding the internal control structure for the fund accountability statement, the auditors identified ten material weaknesses. These weaknesses concerned primarily the separation of duties, accuracy and timeliness of commodities records, policies and procedures, documentation of transactions, preparation of receiving reports, inventory reconciliations, and accounting for nonexpendable property.

With respect to IL's compliance with the terms of the agreements and applicable laws and regulations associated with the fund accountability statement, the auditors identified eight material instances of noncompliance. Areas identified included inadequate documentation for expenditures, payments without USAID approval, improper allocation of consultants' time, excessive charges for computer equipment and programs, and property not returned to USAID.

In the limited testing Deloitte & Touche was able to perform concerning the commodity control system, they identified weaknesses such as extensive delays in recording commodities transactions, unsupported transactions, lack of procedures for verifying accuracy of transactions, ineffective systems of internal controls and written policies and procedures, incomplete waybills and related documents, inadequate reconciliation procedures for commodity books and records, and inadequate inventory procedures.

IL's program ended September 30, 1993, and, USAID has no current plans to use IL as a cooperating sponsor in the future. Therefore, we are not recommending any action to correct procedural deficiencies identified by the auditors with respect to IL's internal control structure and compliance.

We are including the following two recommendations in the Office of the Inspector General's audit recommendation follow-up system.

Recommendation No. 1

We recommend that USAID/Haiti: (1) resolve the questionable costs of the PL-480 Title II commodity program support agreements totalling (a) $239,532 ($117,410 questioned and $122,122 unsupported) identified in the Deloitte Touche LLP report dated August 5, 1994, and (b) $1,408,865 (unsupported) which represents the remainder of the USAID/Haiti funds received by International Lifeline under the PL-480 Title II commodity program support agreements during the period September 6, 1991 to September 30, 1993; and (2) recover from International Lifeline the amounts determined to be unallowable.

Recommendation No. 2

We recommend that USAID/Haiti resolve the questionable (unsupported) PL-480 Title II commodity costs of $722,893 identified in the Deloitte Touche LLP report dated August 5, 1994 and recover from International Lifeline the amounts determined to be unallowable.

Recommendation Nos. 1 and 2 will be considered resolved upon USAID/Haiti's determination of the amount of recovery, and will be considered closed upon the recovery of funds, offset of funds, or issuance of a bill for collection.

Although Deloitte & Touche discussed their audit findings with IL management throughout the audit in Oklahoma City and Port-au-Prince, the draft audit report was not discussed with representatives of IL because they declined to attend the exit conference.

This final audit report is being transmitted to you for your action. Please advise this office within 30 days of actions planned or taken to resolve and close the recommendations.

Regional Inspector General for Audit
San José, Costa Rica

Audit of the Public Law 480 Title II Commodity Program and Support Agreements Managed by International Lifeline, Inc. September 6, 1991 to September 30, 1993

Audit Report No. 1-521-95-01-N
October 6, 1994

INTERNATIONAL LIFELINE
Oklahoma City, Oklahoma

FUND ACCOUNTABILITY STATEMENTS AND INDEPENDENT AUDITORS' REPORTS

For the Period from September 6, 1991 to September 30, 1993

Financial information contained in this report may be privileged. The restrictions of 18 USC 1905 should be considered before any information is released to the public.

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Deloitte &
Touche LLP

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Washington, DC 20036-3564
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August 5, 1994

Mr. Coinage N. Gothard
Regional Inspector General
Agency for International Development
San Jose, Costa Rica

Dear Mr. Gothard:

This report represents the results of our financial close-out audit of the PL-480 Title II commodity program and support assistance agreements, managed by International Lifeline, Inc. (IL) for the period September 6, 1991 to September 30, 1993 (the audit period).

BACKGROUND

International Lifeline, Inc., a not-for-profit organization, located in Oklahoma City, was incorporated to provide hunger relief, disaster relief and long-term rehabilitation to the international community. With regard to Haiti, the first cooperative agreement with IL, no. PDC-0801-A-00-1084, was awarded on September 6, 1991, by USAID for $96,819 to provide humanitarian food assistance and financial support for the forward planning of a new configuration which would implement a feeding program in rural and urban areas in Haiti. On May 16, 1992, cooperative agreement no. 521-0000-A-00-2005 was awarded for the purpose of providing seven month bridge funding (in local currency) to supplement agreement no. PDC-0801-A-00-1084. On July 27, 1992, the agreement was amended obligating additional U.S. owned local currency to allow IL to extend its humanitarian assistance food program to the Island of LaGonave. Another cooperative agreement, no. 521-0000-A-00-2008, was awarded on July 2, 1992 with USAID/Haiti for the purpose of providing funds to cover the operation of a central warehouse needed to store the commodities of the four cooperating sponsors of the PL-480 Title II humanitarian assistance program.

The fourth cooperative agreement, no. 521-0000-A-00-2012, for $197,768 was awarded on July 17, 1992 to provide funds to implement a PL-480 Title II monetization. IL received about $67,000 from USAID for start-up expenses for the program. The last cooperative agreement, to date, no. 521-0000-A-00-2017, was agreed to on August 31, 1992 for $300,000 to provide management and ancillary support costs for a three month period for the PL-480 Title II humanitarian assistance feeding program. Two subsequent amendments were issued on September 25, 1992 and February 2, 1993 which raised the obligated amount to $1,679,262 and extended the PACD to August 31, 1995.

SUSPENSION OF ASSISTANCE TO IL

On October 23, 1992, USAID/Haiti issued a suspension letter to IL discontinuing IL's PL-480 Title II feeding program. This suspension affected only the Title II feeding program and did not include activities involving the management of the central warehouse. We have been advised that the suspension was based upon two different considerations of inadequate food management by IL. The first dealt with allegations of inappropriate conduct and weak program management of the IL/LaGonave feeding program, specifically the apparent unauthorized sale of commodities by certain IL management and the lack of adequate management and accountability controls in that program. The second consideration for the suspension resulted from information obtained from an independent contractor which identified several weaknesses in the overall program management. In January 1993 USAID lifted the suspensions allowing IL to continue to provide humanitarian food assistance to the people of Haiti.

On July 26, 1993, USAID issued a termination letter to IL for failure to implement the PL-480 Title II program to Haiti as agreed to in the Operational Plan and Regulation 11. The termination of the program was effective on September 30, 1993 and cited IL's failure to achieve the following objectives:

- Reach the level of 242,000 beneficiaries established in the 93-95 MYOP submission, approved September, 1992, and later lowered to 81,000 by mutual agreement after the lifting of the IL suspension.
- Implement management corrections agreed upon following the lifting of the October, 1992, program suspension in January/February, 1993.
- Provide adequate management of, and accountability for, the direct feeding project activities.
- Develop the technical capacity necessary to expedite the flow of commodities to local organizations.
- Fulfill USAID PL-480 Title II reporting and documentation requirements, in a timely and correct manner.

AUDIT OBJECTIVES AND SCOPE

Originally, the close-out audit covering the period September 6, 1991 to September 30, 1993 was to be conducted shortly after the termination went into effect on September 30, 1993, with the objectives of determining whether:

1. The Fund Accountability Statement presents fairly, in all material respects, the financial situation of the program's activities managed by IL from September 6, 1991 to September 30, 1993, according to the terms of the agreements, the Federal Grant and Cooperative Agreement Act of 1982, AID Handbooks and applicable OMB Circulars, identifying unsupported costs or those not considered allowable, allocable and reasonable in accordance with the agreements.

2. The Commodity Accountability Statement presents fairly, in all material respects, the status of PL-480 Title II commodities managed by IL from September 6, 1991 to September 30, 1993, including comments on the adequacy of accounting for and management of commodities by IL.

3. IL's internal control structure was sufficient to capture data under the agreements and was adequate for the purposes of the agreement.

4. IL complied with U.S. Government regulations, U.S. laws and the terms of the agreement.

After Deloitte & Touche LLP (D&T) representatives visited IL operations in early April 1994 in Haiti and discussed the results of the visit with the USAID Mission, relative to objective 2, the following more specific procedures were agreed upon between the USAID Mission and the D&T representatives. Such procedures for the Haiti based operations were reviewed and agreed upon by the USAID Office of Inspector General Representatives on May 5, 1994 and are the direct result of the conditions of the records and other supporting data.

1. Rather than verifying the accountability of all commodities imported under the IL agreements, the procedures would focus primarily on the accountability of the imported food oil.

2. IL's commodity inspection reporting system would be assessed to determine if commodity losses were properly reported.

3. IL's transfer of commodity information from the old to the new commodity accounting would be assessed to determine its accuracy.

4. The controls over and recordkeeping of the arrival and use of IL commodities at the feeding centers would be assessed.

5. Using procedures 1 through 4, a determination would be made as to the cost of all unaccounted commodities.

Relative to the period September 6, 1991 to September 30, 1993 for agreement numbers PDC-0801-A-00-1084, 521-0000-A-00-2005, 521-0000-A-00-2008, 521-0000-A-00-2012, and 521-0000-A-00-2017, and, except as disclosed separately with respect to the lack of management representations, we conducted our audit in accordance with generally accepted auditing standards and the Comptroller General's <u>Government Auditing Standards</u>. Audit procedures conducted in order to meet the audit objectives included the testing of a sample of transactions and the study and evaluation of IL's internal control structure relative to the agreements in order to assess control risks and as a basis for our auditing procedures.

RESULTS OF THE AUDIT

Fund Accountability Statement

We were engaged to audit the Fund Accountability Statement for IL grant agreement numbers PDC-0801-A-00-1084, 521-0000-A-00-2005, 521-0000-A-00-2008, 521-0000-A-00-2012, and 521-0000-A-00-2017 for the period September 6, 1991 to September 30, 1993. In connection with our audit, we requested certain written representations from IL, relative to financial reporting, management, and the operation of IL. These representations were not received. Because of the resulting limitation on the scope of our audit concerning the above, we are unable to express and we do not express, an opinion on the Fund Accountability Statement. A summary of the audit findings is as follows:

Total cooperative agreement expenditures	$1,553,458
Total expenditures tested	1,137,764
Ineligible costs	117,410
Unsupported costs	122,122

Total ineligible costs were $117,410 and total unsupported costs were $122,122, which combines for total questioned costs of $239,532. Additionally, as described below, we identified questioned commodity costs of $722,893. Deloitte & Touche auditors computed the value of the commodities received by IL under the Food for Peace agreement as $4.3 million during the two year period.

Commodity Accountability Statement

Neither IL nor their independent auditors were able to prepare a Commodity Accountability Statement. During the course of its contracts, IL did not have in place an adequate system of books and records nor an effective internal control system for commodities to capture and record commodity accounting transactions from the point of arrival until distribution to the recipients at the feeding centers. Weaknesses that contributed to the inadequate commodity internal control system were:

- commodity books were not always maintained at the time transactions occurred nor were there procedures in place to ensure documentation existed to support entries,
- books and records were not reviewed on a timely basis, thereby, numerous errors and omissions made were never corrected,
- transactions were not adequately supported by appropriate documentary evidence,
- the system of internal control was ineffective,
- written policies and procedures were not in force,
- waybills and other documents were often incomplete as to the specific recipient, raising serious doubt as to their reliability,

- books were not reviewed to ensure all transactions were recorded, and
- physical inventories, when taken, were not dated or reconciled to the books, nor were adjustments made.

Further, IL management to date has declined to furnish written representation that the commodity status reports prepared and sent to USAID, each quarter, were accurate and complete.

As no Commodity Accountability Statements have been furnished to us, and based on the above weaknesses, we are unable to express an opinion with respect to any Commodity Accountability Statement of IL for the grants in effect with USAID during the period September 6, 1991 to September 30, 1993. Although we are not able to express an opinion, we identified, through other procedures performed, questioned costs in the amount of $722,893. Deloitte & Touche LLP auditors computed the value of the commodities received by IL under the Food for Peace agreement as $4.3 million during the two year period.

A description of our procedures, including the results of the applied agreed upon procedures are presented separately.

Compliance With The Terms Of The Contract And Applicable Laws And Regulations

As part of our audit, we performed tests of IL's compliance with certain provisions of the grants, laws, regulations and binding policies and procedures. We performed those tests of compliance as part of obtaining reasonable assurance about whether the Fund Accountability Statement is free of material misstatement. Our objective was not to provide an opinion on compliance with such provisions.

	Percentage of Transactions Reviewed	
Cooperative Agreement	Dollar Costs	Local Costs
PDC-0801-A-00-1084	93	--
521-0000-A-00-2005	100	71
521-0000-A-00-2008	100	46
521-0000-A-00-2012	100	43
521-0000-A-00-2017	55	67

Our tests of compliance disclosed the 10 following instances of noncompliance.

1. Documentation was unavailable or insufficient to support certain expenditures
2. IL exceeded the allowable amount for salaries
3. IL's deputy director was not approved by USAID
4. Consultant's time was improperly allocated
5. Printing costs were charged as direct costs without USAID approval
6. Equipment/computer programs used on all IL activities were charged only to USAID

7. Gasoline purchased with USAID funds was stolen from IL storage
8. Proceeds from the sale of unfit commodities were not returned to the government
9. Proceeds from the sale of commodity sacks were not returned to the government
10. All property was not returned to USAID

Internal Control Structure

We studied and evaluated IL's internal control structure in Oklahoma City, Oklahoma and Port-au-Prince, Haiti relative to USAID contract numbers PDC-0801-A-00-1084, 521-0000-A-00-2005, 521-0000-A-00-2008, 521-0000-A-00-2012, and 521-0000-A-00-2017 to assess the control risks and to determine our auditing procedures for the purpose of expressing an opinion on IL's Fund Accountability Statement and not to provide assurance on IL's internal control structure taken as a whole. Our procedures included extensive examination of the books and records, extended discussion with IL and USAID employees and discussion with certain others who had financial or commodity dealings with IL. Although we were not present to observe any of the control procedures during the operation of the cooperative agreements, the evidence available to us during the course of our procedures leads us to conclude that the internal control structure of IL was ineffective during most, if not all, of the period of the cooperative agreements. We identified certain matters involving the internal control structure and its operations that we consider to be reportable conditions and material weaknesses.

1. Transactions were not properly authorized
2. Duties were not appropriately segregated
3. Books and records were not always maintained
4. Access to and the use of assets and records were not always safeguarded
5. Computation, reconciliations, financial and commodity adjustments were not independently verified and control accounts were not agreed to underlying inventory detail

We discussed the findings and recommendations in this report with IL management throughout the engagement in Oklahoma City and Port-au-Prince. After completing the draft report we held a close-out meeting with USAID management on August 5, 1994 in Washington, DC. IL management was informed of the close-out, but did not attend the meeting. Additionally, we discussed the report with USAID's Office of the Inspector General. Their comments on the draft report have been considered in finalizing the report while IL's comments have been included in the report. We wish to thank the individuals at IL for the time and cooperation given to us throughout the engagement.

Sincerely,

William E. Kuntz
Partner

Deloitte &
Touche LLP

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INDEPENDENT AUDITORS' REPORT

To U.S. Agency for International Development

We were engaged to audit the accompanying Fund Accountability Statement of International Lifeline, Inc. (IL) for the period from September 6, 1991 to September 30, 1993, under the terms of cooperative agreements PDC-0801-A-00-1084, 521-0000-A-00-2005, 521-0000-A-00-2008, 521-0000-A-00-2012 and 521-0000-A-00-2017 between IL and the U.S. Agency for International Development (USAID). The Fund Accountability Statement is the responsibility of IL's management. Our responsibility is to express an opinion on the Fund Accountability Statement of expenditures based on our audit.

Except as discussed in the following paragraph, we conducted our audit in accordance with generally accepted auditing standards and Government Auditing Standards, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the Fund Accountability Statement is free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts in the Fund Accountability Statement. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall presentation of the Fund Accountability Statement. We believe that our audit provides a reasonable basis for our opinion.

As described in Note 1, the accompanying Statement was prepared for purposes of complying with the above named agreements, and is not intended to be a complete presentation of IL's financial position, operations or fund balance. Additionally, as described in Note 1, the accompanying Statement was prepared on the basis of cash receipts and disbursements, which is a comprehensive basis of accounting other than generally accepted accounting principles.

In connection with the audit, certain written representations were requested from IL, relative to financial reporting, management, and the operation of IL. These representations were not received. Because of the limitation on the scope of our audit concerning the above, the scope of our work was not sufficient to enable us to express, and we do not express, an opinion on the Fund Accountability Statement for the period from September 6, 1991 to September 30, 1993. This report is intended solely for the use of USAID and IL. This restriction is not intended to limit the distribution of this report which upon acceptance by the Office of the Inspector General, is a matter of public record.

Deloitte & Touche LLP

August 5, 1994

INTERNATIONAL LIFELINE, INC.
FUND ACCOUNTABILITY STATEMENT
For the Period September 6, 1991 to September 30, 1993

Dollar Costs (stated in U.S. dollars)

Revenue	Agreement Number	Revenue Budget	Revenue Actual	Summary of Questioned Cost Ineligible	Summary of Questioned Cost Unsupported	Reference Note 2
	1084	475,727	475,727	44,330	3,550	
	2005	24,650	22,729	5,263	0	
	2008	135,176	94,776	0	0	
	2012	120,000	97,104	0	0	
	2017	814,271	333,116	38,159	0	
Total		1,569,824	1,023,452	87,752	3,550	

Costs Incurred

	Agreement Number	Budget	Actual	Questioned Cost Ineligible	Questioned Cost Unsupported	Reference Note 2
Salaries						
	1084	193,308	193,308	6,959	2,320	1, 2
	2005	0	0	0	0	
	2008	49,166	0	0	0	
	2012	56,005	34,900	0	0	
	2017	374,112	190,856	8,450	0	3
Travel						
	1084	31,170	31,171	0	0	
	2005	0	0	0	0	
	2008	0	0	0	0	
	2012	20,280	12,665	0	0	
	2017	184,712	59,055	0	0	
Equipment						
	1084	87,589	65,962	14,572	780	6, 1
	2005	0	0	0	0	
	2008	38,010	38,654	0	0	
	2012	5,225	0	0	0	
	2017	38,787	1,872	0	0	
Other						
	1084	55,425	55,642	22,799	318	5, 8, 1
	2005	22,729	22,729	5,263	0	8
	2008	48,000	29,790	0	0	
	2012	38,490	19,443	0	0	
	2017	216,660	101,556	29,012	0	8
Office Renovation						
	1084	46,026	34,117	0	132	1
	2005	0	0	0	0	
	2008	0	0	0	0	
	2012	0	0	0	0	
	2017	0	0	0	0	
Consultants						
	1084	62,208	59,453	0	0	
	2005	0	0	0	0	
	2008	0	0	0	0	
	2012	0	0	0	0	
	2017	0	0	697	0	4
Total Costs Incurred		1,567,902	951,173	87,752	3,550	
Fund Balance			72,279			
Reimbursements						
	1084	36,074				
	2005	0				
	2008	26,331				
	2012	30,096				
	2017	0	92,501			
Outstanding Balance			(20,222)			

See notes to Fund Accountability Statement.

Deloitte & Touche LLP

Gourde Costs (stated in U.S. dollars)

Revenue	Agreement Number	Revenue Budget	Revenue Actual	Summary of Questioned Cost Ineligible	Summary of Questioned Cost Unsupported	Reference Note 2
	1084	0	0	0	115	
	2005	115,406	65,046	297	3,231	
	2008	133,683	116,760	0	6,975	
	2012	77,768	40,621	0	0	
	2017	864,991 •	402,518	29,361	108,251	
Total		1,191,848	624,945	29,658	118,572	

Costs Incurred

	Agreement Number	Budget	Actual	Questioned Cost Ineligible	Questioned Cost Unsupported	Reference Note 2
Salaries						
	1084	0	0	0	0	
	2005	28,471	17,324	0	0	
	2008	94,368	94,047	0	1,975	1
	2012	36,700	10,295	0	0	
	2017	332,781	208,503	0	0	3
Travel						
	1084	0	0	0	0	
	2005	0	0	0	598	1
	2008	0	0	0	0	
	2012	10,787	4,889	0	0	
	2017	0	0	0	0	
Equipment						
	1084	0	0	0	0	
	2005	0	0	0	553	1
	2008	12,000	4,340	0	0	
	2012	1,800	249	0	0	
	2017	5,000	2,673	0	0	
Other						
	1084	0	0	0	115	1
	2005	86,935	26,938	297	2,081	8, 1
	2008	27,315	18,373	0	5,000	1
	2012	24,481	19,250	0	0	
	2017	162,436	106,765	29,361	35,322	7, 8, 1
Consultants						
	1084	0	0	0	0	
	2005	0	0	0	0	
	2008	0	0	0	0	
	2012	4,000	638	0	0	
	2017	0	0	0	0	
Commodity Distribution						
	1084	0	0	0	0	
	2005	0	0	0	0	
	2008	0	0	0	0	
	2012	0	0	0	0	
	2017	364,774	88,001	0	72,928	1
Total Costs Incurred		1,191,848	602,285	29,658	118,572	
Fund Balance			22,660			
Reimbursements						
	1084	0				
	2005	20,784				
	2008	5,301				
	2012	0				
	2017	0	26,085			
Outstanding Balance			(3,424)			

All gourde costs were converted at an exchange rate of 10 gourdes to 1 dollar.

• USAID approved $864,991 to be used for project expenditures of the $2,183,325 obligated for this cooperative agreement.

See notes to Fund Accountability Statement.

INTERNATIONAL LIFELINE, INC.
NOTES TO THE FUND ACCOUNTABILITY STATEMENT
For the Period from September 6, 1991 to September 30, 1993

NOTE 1: NATURE OF OPERATIONS AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES.

A. International Lifeline, Inc. (IL) was founded in 1977, as a not-for-profit organization conducting Christian ministries in the international community in the areas of world hunger relief, disaster relief, and long-term rehabilitation. IL received approval on March 8, 1991 for a PL-480 Title II Food for Peace Program from USAID. The first cooperative agreement, no. PDC-0801-A-00-1084, was signed on September 6, 1991 to provide financial support for the forward planning of a new configuration (an umbrella group under IL) which would implement a feeding program in rural and urban areas in Haiti. The second cooperative agreement, no. 521-0000-A-00-2005, dated May 16, 1992, provided seven month bridge funding to supplement the earlier agreement. In early July, 1992, cooperative agreement no. 521-0000-A-00-2008 was signed providing funds to cover the operations of a central warehouse needed to store the commodities of the four cooperating sponsors involved in the Haitian humanitarian assistance program. During the same month another cooperative agreement, no. 521-0000-A-00-2012, was agreed to for the purpose of implementing a PL-480 monetization program, but never materialized because concurrence could not be obtained from the Haitian government. The last cooperative agreement, no. 521-0000-A-00-2017, was signed on August 31, 1992 to provide funds for management and ancillary support costs for the humanitarian assistance feeding program. On October 23, 1992, USAID/Haiti suspended the IL feeding program and in July, 1993, terminated the program with an effective date of September 30, 1993.

B. Expenditures are considered as being related to the disbursing of funds provided by USAID to accomplish the objectives identified in the USAID cooperative agreements identified in note 1A.

C. The Fund Accountability Statement is not intended to be a complete presentation of IL's financial position, operations or fund balance. The Fund Accountability Statement was prepared on the basis of cash receipts and disbursements, which is a comprehensive basis of accounting other than generally accepted accounting principles.

D. Since the signing of cooperative agreement no. 521-0000-A-00-2005 in May, 1992, the USAID/Haiti advanced local currency (gourdes) to IL for the payment of expenses incurred in Haiti. Such advances were provided until some time in 1993 when the decision was made to terminate the IL program. At the time of termination IL had incurred a greater amount of expenses than funds advanced resulting in a deficit in the Fund Accountability Statement. See attachment D for a schedule of the exchange rates.

E. Cooperative agreement no. PDC-0801-A-00-1084 required that IL provide $43,373 in matching funds. IL exceeded the required amount by $22,695 for a total matching fund contribution of $66,068.

F. Subsequent to September 30, 1993, cooperative agreement no. 521-0000-A-00-2017 was reopened by USAID to fund IL expenses that would be incurred while the close out audit was conducted. The amendment allowed $42,248 in costs to cover the months of October and November. Due to the political crisis in Haiti, the audit was not conducted until a later time period. Costs incurred by IL subsequent to September 30, 1993 are not reflected in the accompanying Statement.

NOTE 2: Total unsupported costs of $122,122 and ineligible cost of $117,410 are documented in the Schedule of Questioned Costs.

Finding	Amount
1. Unsupported Costs	$122,122
2. Salary Overcharge	6,959
3. Unapproved Salaries	8,450
4. Consultants Charged Direct	697
5. Printing Charged Direct	2,807
6. Non-USAID Items Charged	14,572
7. Theft of Gasoline	2,734
8. Property Not Returned	81,111

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INDEPENDENT AUDITORS' REPORT ON
APPLYING AGREED-UPON PROCEDURES

To U.S. Agency for International Development

We have applied certain agreed-upon procedures, as discussed below, to the records of the commodities provided to International Lifeline, Inc. (IL) under a PL-480 Title II Food for Peace Program Agreement with the U.S. Agency for International Development (USAID) for the period September 6, 1991 through September 30, 1993. A detailed description of our procedures and findings is included as attachment C. A summary of our procedures and findings is as follows.

IMPORTED FOOD OIL

To verify the accountability of vegetable oil, we tested the accuracy of the Commodity Status Reports (CSRs) submitted to USAID and we assessed IL's compliance with USAID regulations to maintain adequate records and documents reflecting the receipt, storage, distribution, inspection and the use of commodities. We read the records for the arrival of commodities at IL and the distribution of commodities to umbrella agencies and feeding centers including pickup-direct delivery, receiving reports, receiving and shipping control ledgers, commodity pickup orders (waybills), delivery manifests and feeding center records of commodity receipt and distribution. We assessed the procedures used for taking physical inventories and reconciling differences between book and physical inventory counts. We also assessed IL's written policies and procedures for managing food commodities.

Among the major weaknesses noted during our procedures were a lack of written policies and procedures, a lack of documentation to account for beginning inventories and subsequent physical inventories, unexplained missing pages from the waybill ledger and from a central warehouse ledger, lack of warehouse receiving reports, and original delivery manifests not returned to IL. There appeared to be a lack of individual accountability for receiving, shipping and inventory control. IL forms did not provide for typed or printed names of the signing parties, contain legible signatures nor specify why the signer was attesting.

CSRs prepared by IL showed that at the beginning of the PL-480 Title II Program, IL had a physical inventory of 25,058 cases of vegetable oil and, through September 30, 1993, had received another 44,267 cases for a total of 69,325 cases. In addition, our procedures identified another 18,515 cases that had not been recorded on IL records, bringing the total amount of cases of vegetable oil received by IL to 87,840 cases with a value of $1,757,678 (based on a value of $20.01 per case). Of this amount, as the result of our procedures, $610,478, or about 35 percent, in vegetable oil costs have been questioned for the reasons identified in attachment C.

Since other commodities imported by IL into Haiti under the Title II program were accounted for and distributed in a manner similar to vegetable oil, we concluded that the weaknesses found on accountability for vegetable food oil likely apply to the accountability for other commodities.

COMMODITY INSPECTION REPORTING SYSTEM

USAID required IL to put in place a commodity inspection system. In order to determine if commodity losses identified by IL inspectors were properly reported, we determined the frequency of inspections performed and selectively read inspection files. We selected the inspection files of 20 feeding centers including (a) sixteen centers selected arbitrarily from the filing cabinet drawer, and (b) four centers for which IL had terminated participation in the program. The 20 files contained 63 inspection reports between March and September 1993 of which 55 were analyzed. IL's inspection staff included two inspectors in 1992 and eight in 1993. In order to verify the trips made by inspectors, we determined if IL maintained trip logs for vehicles.

IL made substantial numbers of inspections during the last six months of operation. According to IL records, IL inspectors performed 134 inspections in July 1993 and 149 inspections in August 1993. No summary records, however, were maintained during earlier time periods. IL did not maintain vehicle trip records, therefore, we could not use such records to verify the IL inspections.

During earlier time periods, inspections were apparently infrequent. Of the 20 feeding center files read, no inspections prior to March 1993 were found. One file (02-251) had no inspection reports.

Based on our observations of the inspection reports, we concluded that the inspection system was not effectively functioning prior to March 1993 but that the system appeared to be providing sufficient coverage after that time to meet USAID requirements.

TRANSFER OF COMMODITY INFORMATION

In late 1992, IL began using a different type of commodity control ledger than that previously used. We were advised that beginning commodity balances on the new ledger were based on IL's physical inventory which, according to our analysis, differed from the apparent ending balance in IL's old ledger.

Our analysis found that the beginning balance in the new ledger for vegetable oil was 533 cases less than the book balance in the old ledger. A written reconciliation accounting for the shortage of 533 cases of vegetable oil was requested from IL but not received. IL representatives said that 215 cases of the difference can be explained by two reports of spoiled vegetable oil (125 and 90 cases). We noted that the spoiled vegetable oil referred to by IL was imported in June 1991 prior to the commencement of the Title II program.

No such analysis was made for the other food commodities because (a) IL had not created a revised ledger for these commodities, and (b) the condition of the books and records were such that data on actual and book commodity balances was incomplete and inconclusive.

FEEDING CENTERS

The adequacy of documentation and accounting for commodities was assessed during visits to three feeding centers. Interviews were held with appropriate center personnel and documents related to commodity reception and distribution to beneficiaries were read.

Based on the results of our assessment, we concluded that the reliability of feeding center records was questionable. Further, we could not verify commodity deliveries by cross-checking to records of transportation to subrecipients and feeding centers because none of the transportation invoices contained copies of waybills or lists of commodity shipments. In addition, the reliability of such invoices was questionable because they were composed of xerox copies of the trucking company stationery.

Also, IL did not distribute Food for Work commodities as authorized by USAID, but rather provided such commodities as hot lunches to its employees and authorized the feeding centers to distribute such commodities as wages to feeding center employees.

COST OF LOST COMMODITIES

Based on cost information provided by USAID, the questioned costs of lost commodities were determined by averaging out the price of commodities over the 1992-93 period. The following costs were used:

Commodity	Cost (Kilogram)	Cost (Sack/Case)
Vegetable Oil	$.908	$20.01
Soy Fortified Bulgur	.392	19.60
Wheat Soy Blend	.603	15.06
Green Peas (dried)	.401	20.03

As the result of our procedures the following questioned costs were identified:

	Reason	Amount
1.	Unaccounted for vegetable oil under the pickup/direct delivery system	$103,052
2.	Unrecorded receipt of 20 containers of vegetable oil	320,160
3.	Unsigned, duplicate or otherwise unsupported waybills resulting in questioned costs	147,936
4.	Inventory shortage at LaGonave	22,864
5.	Unaccounted for shortage of vegetable oil when IL started a new control ledger	10,665
6.	Unauthorized use of Food for Work commodities	99,944
7.	Proceeds from the sale of unfit commodities	722
8.	Proceeds from the sale of commodity sacks	17,500
	Total Value of Questioned Costs	$722,893

We computed the value of the commodities received by IL under the Food for Peace agreement as $4.3 million during the two year period.

The above amounts do not include the value of other commodities which may not have been appropriately utilized and not so identified. The failure of IL management to provide us with representations concerning the commodity reports and certain other matters is of significant concern.

Because the above procedures do not constitute an audit conducted in accordance with generally accepted auditing standards, we do not express an opinion on any of the commodity costs referred to above. Had we performed additional procedures or had we conducted an audit in accordance with generally accepted auditing standards and Government Auditing Standards issued by the Comptroller General of the United States, matters might have come to our attention that would have been reported to you. This report relates solely to the expenditures specified above and does not extend any commodity statements of IL taken as a whole.

This report is intended solely for the use of USAID and IL. This restriction is not intended to limit the distribution of this report which, upon acceptance by the Office of the Inspector General, is a matter of public record.

Deloitte & Touche LLP

August 5, 1994

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INDEPENDENT AUDITORS' REPORT ON COMPLIANCE

To U.S. Agency for International Development

We were engaged to audit the Fund Accountability Statement of International Lifeline, Inc. (IL) for the period September 6, 1991 to September 30, 1993, and have issued our report thereon dated August 5, 1994. In our report, we have disclaimed an opinion due to the lack of written representations concerning financial reporting, management and the operation of IL.

Except as discussed above regarding the obtaining of certain representations, we conducted our audit in accordance with generally accepted auditing standards and Government Auditing Standards, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the Fund Accountability Statement is free of material misstatement.

Compliance with laws, regulations, and grants applicable to IL is the responsibility of IL's management. As part of obtaining reasonable assurance about whether the Fund Accountability Statement is free of material misstatement, we performed tests of IL's compliance with certain provisions of laws, regulations, and grants. However, the objective of our audit of the Fund Accountability Statement was not to provide an opinion on overall compliance with such provisions.

Material instances of noncompliance are failures to follow requirements or violations of prohibitions, contained in statutes, regulations, contracts, or grants, that cause us to conclude that the aggregation of the misstatements resulting from those failures or violations is material to the Fund Accountability Statement, and/or that the sensitivity of the instances of noncompliance would cause it to be perceived as significant by others. The results of our tests disclosed the material instances of noncompliance described in the accompanying Schedules of Questioned Costs and Findings. Except as described above, the results of our tests of compliance indicate that, with respect to the items tested, IL complied, in all material respects, with the provisions referred to in the third paragraph of this report. However, the extent of noncompliance noted in our testing indicates that, with respect to items that were not tested by us, there is more than a relatively low risk that IL may not have complied with the provisions referred to in the preceding paragraph. These matters were considered in our decision to disclaim an opinion on the Fund Accountability Statement for the period September 6, 1991 to September 30, 1993.

This report is intended solely for the use of USAID and IL. This restriction is not intended to limit the distribution of this report, which upon acceptance by the Office of the Inspector General, is a matter of public record.

Deloitte & Touche LLP

August 5, 1994

INTERNATIONAL LIFELINE
IL EXPENDITURES FOR THE PERIOD
SEPTEMBER 6, 1991 THROUGH SEPTEMBER 30, 1993

COMPLIANCE WITH THE TERMS OF THE AGREEMENT
AND APPLICABLE LAWS AND REGULATIONS

SCHEDULE OF QUESTIONED COSTS

According to USAID applicable regulations, costs charged to a project must meet the following general criteria:

a. Be reasonable for the performance of the program. A cost is reasonable, in its nature or amount, if it does not exceed that which would be incurred by a prudent person under the same circumstances.

b. Be allocable to the project. A cost is allocable in accordance with the relative benefits received.

c. Conform to any limitations or exclusions set forth in the agreement on which the project is based.

d. Be adequately documented. Ineligible costs are all those costs unallocable and or unallowable in accordance with the terms of the grants, applicable laws and regulations. Unsupported costs are costs not properly supported by the recipient, in excess of the budgeted amount per line item including allowable variances, and costs considered unreasonable under the circumstances.

The following costs, which are described in the schedule of findings, were questioned because they were not adequately supported or were not in compliance with the cooperative agreements, applicable laws or regulations.

Agreement No.	Findings	Ineligible	Unsupported	Total
All	Insufficient Documentation	$ 0	$122,122	$122,122
1084 & 2017	Salary Overcharge	6,959	0	6,959
2017	Unapproved Salaries	8,450	0	8,450
2017	Consultants Charged Direct	697	0	697
2017	Printing Charged Direct	2,887	0	2,887
All	Non-USAID Items Charged	14,572	0	14,572
2017	Theft of Gasoline	2,734	0	2,734
All	Property Not Returned	81,111	0	81,111
	Total	$117,410	$122,122	$239,532

INTERNATIONAL LIFELINE
IL EXPENDITURES FOR THE PERIOD
SEPTEMBER 6, 1991 THROUGH SEPTEMBER 30, 1993

COMPLIANCE WITH THE TERMS OF THE AGREEMENT
AND APPLICABLE LAWS AND REGULATIONS

SCHEDULE OF FINDINGS

1. Documentation was unavailable or insufficient to support certain expenditures.

CONDITION:

IL could not locate supporting documentation for $122,122 in expenditures.

See attachment A.

CRITERIA:

Cooperative agreements require that expenditures be adequately supported to determine if the costs are allowable, allocable and reasonable.

CAUSE:

At the onset of their work on the PL-480 program, IL may not have known the importance of maintaining adequate supporting documentation for all expenditures nor did they establish written guidelines for the retention of such documentation.

EFFECT:

The allowability of the expenditures could not be determined.

RECOMMENDATION:

We recommend that IL be required to provide adequate documentation to support all the $122,122 in expenditures that were either not supported by sufficient documentation or for which no documentation was available.

2. **IL exceeded the allowable amount for salaries.**

CONDITION:

The President of IL charged more than the 85 percent maximum amount for salaries allowed under USAID cooperative agreements PDC-0801-A-00-1084 and 521-0000-A-00-2017.

CRITERIA:

The two cooperative agreements state that the President is only allowed to allocate up to 85 percent of salary expenses to USAID and the remainder must be allocated to other IL activities.

CAUSE:

IL personnel interpreted the 85 percent as an estimate and not a maximum. Therefore, actual worked time was charged even though it exceeded the 85 percent.

EFFECT:

IL overcharged USAID $6,959 under the two USAID cooperative agreements.

RECOMMENDATION:

We recommend that IL pay USAID the $6,959 overcharged.

3. **IL deputy director was not approved by USAID.**

CONDITION:

The IL deputy director charged the cooperative agreement (521-000-A-00-2017) for salary expenses between 1/15/93 and 2/13/93 even though the employment contract had not been approved by USAID until a later date.

CRITERIA:

According to the cooperative agreement, consultants and key personnel had to be approved by the USAID project officer before charges could be made.

CAUSE:

We were advised that IL had obtained oral approval from the USAID project officer but such approval was not put in writing.

EFFECT:

IL was reimbursed for $8,450 in salary costs that were not approved in writing by USAID.

RECOMMENDATION:

We recommend that IL only be reimbursed for the period of time that the deputy director had been approved by USAID.

4. **Consultants time was imprcperly allocated.**

CONDITION:

IL expensed some consultant costs directly to USAID that should have been expensed to IL G&A.

CRITERIA:

All expenses should be correctly allocated between the direct and indirect accounts.

CAUSE:

IL advised us that they were not aware that the mistake had been made.

EFFECT:

IL inadvertently overcharged, by $697, USAID cooperative agreement 521-0000-A-00-2017.

RECOMMENDATION:

We recommend that IL pay USAID the $697 inadvertently overcharged.

5. **Printing costs were charged as direct costs without USAID approval.**

CONDITION:

Printing costs of $2,887 were considered as a direct cost by IL rather than allocating the cost indirectly.

CRITERIA:

OMB Circular A-122 does not allow printing costs as a direct charge unless such costs are approved by the awarding agency (USAID).

CAUSE:

IL believed the program related printing costs could be charged directly to cooperative agreement 521-0000-A-00-2017 without written approval from USAID.

EFFECT:

USAID cooperative agreements could have been charged for costs disproportionate to the benefits received, resulting in excessive grant costs.

RECOMMENDATION:

We recommend that IL be required to show that the printing costs incurred by IL were solely for USAID activities and any other printing costs should be considered as indirect.

6. **Equipment/computer programs used on all IL activities were charged only to USAID.**

CONDITION:

Costs for such items as computers, computer software, etc., totaling $14,572, were charged as a direct expense to USAID even though such items were also used to support non-USAID activities.

CRITERIA:

OMB Circular A-122 considers costs to be allocable to the government awards if tested consistently with other costs incurred for the same purpose, in like circumstances, and if the costs: (a) are incurred specifically for the award, (b) benefit both the award and other work and can be distributed in reasonable proportion to the benefits received, and (c) are necessary to the overall operation of the organization, although a direct relationship to any particular cost objective cannot be shown.

CAUSE:

IL management believed 100 percent of such costs could be charged directly to USAID even though the items were also used for non-USAID activities.

EFFECT:

USAID grants were charged for costs disproportionate to the benefits received, resulting in possible excessive cooperative agreement costs of $14,572.

RECOMMENDATION:

We recommend that IL return to USAID all equipment costs incurred for non-USAID purposes of $14,572.

7. **Gasoline purchased with USAID funds, under cooperative agreement 521-0000-A-00-2017, was stolen from IL storage.**

CONDITION:

IL, without USAID approval, began stockpiling gasoline because of the ensuing embargo and entered into a verbal agreement with a third party for storage of the gasoline. 2,343 gallons were stolen from the third party's location; after discovering the theft, IL did not report it to the Haitian police or USAID authorities.

CRITERIA:

As an agent of USAID, IL is required to take proper precautions to safeguard all assets and to reduce loss.

CAUSE:

$2,734 of gasoline was improperly stockpiled and stored by IL, without adequate safeguards to prevent loss.

EFFECT:

USAID did not benefit from the $2,734 in gasoline purchased by IL.

RECOMMENDATION:

We recommend that IL reimburse USAID for the $2,734 worth of gasoline stolen from the third party location.

8. All property was not returned to USAID

CONDITION:

IL kept computer equipment, valued at $14,572, in Oklahoma City that was procured with USAID funds (see finding number 6). In addition, property valued at $81,111 was kept by IL (see Attachment B).

CRITERIA:

USAID standard provisions, included as a part of the USAID agreements with IL, refer to Handbook 13, which requires that the grantee provide compensation to USAID for non-expendable property with acquisition costs over $1,000 and expendable property with aggregate market value over $1,000. "Non-expendable property" is defined as having a useful life of more than two years and an acquisition cost of $500 or more and "expendable property" as all other property.

CAUSE:

IL management was awaiting instructions from USAID or was not aware that the items had been procured with USAID funds.

EFFECT:

IL was holding about $95,683 in non-expendable and expendable property that belongs to the U.S. Government, of such amount, $14,572 has already been identified as a questioned cost under finding number 6, leaving a balance of $81,111.

RECOMMENDATION:

We recommend that IL either return all property purchased with USAID funds or compensate USAID for the property in accordance with the provisions stated in Handbook.

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INDEPENDENT AUDITORS' REPORT ON
INTERNAL CONTROL STRUCTURE

To U.S. Agency for International Development

We were engaged to audit the Fund Accountability Statement of International Lifeline, Inc. (IL) for the period from September 6, 1991 to September 30, 1993 and have issued our report therein dated August 5, 1994. In our report, we have disclaimed an opinion due to lack of written representations concerning financial reporting, management, and the operation of IL.

Except as discussed above regarding the obtaining of certain written representations, we conducted our audit in accordance with generally accepted auditing standards and Government Auditing Standards, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the Fund Accountability Statement is free of material misstatement.

In planning and performing our audit of the Fund Accountability Statement of IL, we considered its internal control structure in order to determine our auditing procedures for the purpose of expressing our opinion on the Fund Accountability Statement and not to provide assurance on the internal control structure.

The management of IL is responsible for establishing and maintaining the internal control structure. In fulfilling this responsibility, estimates and judgments by management are required to assess the expected benefits and related costs of internal control structure policies and procedures. The objectives of an internal control structure are to provide management with reasonable, but not absolute, assurance that the 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 Fund Accountability Statement in accordance with the terms of contracts between IL and the U.S. Agency for International Development. Because of inherent limitations in any internal control structure, errors or irregularities may nevertheless occur and not be detected. Also, projection of any evaluation of the structure to future periods is subject to the risk that procedures may become inadequate because of changes in conditions or that the effectiveness of the design and operation of policies and procedures may deteriorate.

Our consideration of IL's internal control structure consisted of evaluation of its control environment, accounting system, and control procedures.

We assessed control risk of IL operations in both its Haiti and Oklahoma operations. Our assessment consisted of examination of books, records, and other documentation, inquiry of management, employees, and third parties and observation. We also tested numerous transactions and account balances.

In reaching our conclusion on the status and existence of the internal control structure in the IL organization, we gave consideration to:

- The size and organizational structure of IL,
- Its PVO status and characteristics,
- The diversity, complexity and wide-spread nature of its operations,
- Its methods of processing accounting and commodity data, and
- Requirements under its USAID contract.

We considered the control environment to include:

- The managerial, operational and control philosophy and style of the President and key employees available to us,

- The organizational structure we understood to be in place during the time the USAID contract was functioning,

- The apparent absence of a functioning Board of Directors,

- The effects of methods used by the President to assign authority and responsibility,

- The apparent impact of the President or other management personnel on monitoring and follow up,

- Apparent skills and competency of IL employees on site during our examination, and

- The impact of USAID inspections, monitoring, and direction as evident by documenting evidence available.

We gave consideration to the accounting system as reflected in the books and records available to us and by inquiry of departmental supervision on site at the time of our audit (in both Haiti and Oklahoma) to include:

- The systems requirement for identification and determination of validity for all transactions,

- Timely recording of transactions in sufficient detail to permit proper classification and recording of both financial and commodity transactions,

- Measurement of the value of transactions to permit appropriate recording,

- Determination of the time period in which the transaction occurred to permit appropriate recording, and

- Proper presentation of transactions (financial and commodity) in financial statements and commodity status reports.

Our assessment also included consideration of the control procedures as we believed them to exist during the execution of the USAID cooperative agreements by IL. Our procedures included extensive examination of the books and records, extended discussions with IL and USAID employees and discussion with certain others who had financial or commodity dealings with IL. The control procedures we sought to evaluate included:

- Proper authorization of transactions
- Appropriate segregation of duties
- Adequate design of books and records
- Apparent safeguards over access to and use of assets and records
- Independent verification of computations, reconciliations, financial and commodity adjustments, and agreement of control accounts to underlying inventory detail.

Although we were not present to observe any of the above during the operation of the cooperative agreements, the evidence available to us during the course of our audit leads us to conclude that the internal control structure of IL was ineffective during most, if not all, of the cooperative agreements period. Details of the matters noted are presented in the appendix to this report. In summary, the following conditions are those that contribute most substantially to our conclusions with respect to the internal control structure:

- Activities were under the direct supervision of one individual.

- Commodity books were not always maintained at the time transactions occurred, or if such books were maintained, they were not available to us in all instances.

- Numerous errors and omissions were found in the books and records.

- Written policies and procedures were not available in most instances.

- Some transactions were not supported with adequate documentation.

- Shipping and receiving functions were not always separated.

- Some transactions were not recorded in the books and records.

- Certain IL inspectors reports were missing or not prepared.
- Physical inventories, if taken, were not reconciled to the books, nor were adjustments made.
- Property was not accounted for, as prescribed.

We consider these weaknesses involving the internal control structure and its operation, to be reportable conditions under standards established by the American Institute of Certified Public Accountants.

Reportable conditions involve matters coming to our attention relating to significant deficiencies in the design or operation of the internal control structure that, in our judgment, could adversely affect the entity's ability to record, process, summarize and report financial data consistent with the assertions of management in the Fund Accountability Statement.

A material weakness is a reportable condition in which the design or operation of the specific internal control structure elements does not reduce to a relatively low level the risk that errors or irregularities in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions.

Our consideration of the internal control structure would not necessarily disclose all matters in the internal control structure that might be reportable conditions and, accordingly, would not necessarily disclose all reportable conditions that are also considered to be material weaknesses as defined above. However, we believe the reportable conditions previously described are also material weaknesses.

This report is intended solely for the use of USAID and IL. This restriction is not intended to limit the distribution of this report which, upon acceptance by the Office of the Inspector General, is a matter of public record.

Deloitte & Touche LLP

August 5, 1994

INTERNATIONAL LIFELINE, INC.
REPORTABLE CONDITIONS

1. **Activities were under the direct supervision of one individual.**

CONDITION:

IL did not segregate duties within the headquarters office in Oklahoma City, Oklahoma, nor at their office in Port-au-Prince, Haiti, to ensure that one individual did not have access to all parts of the cash disbursement cycle. The President of IL could initiate purchase orders and also could write checks for unlimited amounts, without a second signature. We noted that in one case the President wrote a check for more that $20,000, without a second signature. Further, the only other active officer in the Private Voluntary Organization was the Controller, who also was the President's wife. Also, the Board of Directors did not appear to be actively involved in the management and oversight of IL's operations. For example, in 1993 the Board of Directors apparently only held one meeting.

CRITERIA:

To prevent the misuse of funds, duties should have been adequately segregated within the headquarters office, as well as within the office in Port-au-Prince.

CAUSE:

The offices were small and IL believed other compensating internal control policies reduced the risk of any major losses.

EFFECT:

Lack of adequate segregation of duties within IL increased the risk of the misuse of funds.

RECOMMENDATION:

We recommend that IL closely review the cash disbursement cycles in Oklahoma City and Port-au-Prince, including the internal controls, and where appropriate, segregate the duties of the staff so that one individual does not have the ability to control all key aspects of a transaction.

2. Commodity books were not always maintained at the time transactions occurred, or if such books were maintained, they were not available to us in all instances.

CONDITION:

According to IL officials, the principal IL receiving and distribution ledger during the period April through September 1992 was not maintained on a daily basis. It appeared that the ledger had been created after the fact.

CRITERIA:

Books and records should be prepared at the time transactions occur.

CAUSE:

IL did not place enough emphasis on the preparation of timely books and records.

EFFECT:

The lack of timely preparation of books and records increased the risk of misuse and unauthorized use of commodities.

RECOMMENDATION:

We recommend that USAID guidelines be followed for the recording and monitoring of commodities, and that appropriate procedures be prepared and included in an IL policies and procedures manual, and implemented.

3. Numerous errors and omissions were found in the books and records.

CONDITION:

Almost all of IL's books and records on commodity accounting had errors and omissions, including the Commodity Status Reports which were widely different from IL's books and records. For example, the beginning inventory of 3,336 cases of vegetable oil varied significantly with the Commodity Status Report amount of 25,058 cases. Waybills and delivery manifests contained a significant number of duplicate entries, incorrect or improper signatures and incorrect names of recipients. Requests for commodity loans were not documented. Further, many commodity deliveries to recipient agencies did not contain signatures from the receiving agency.

CRITERIA:

To provide for a reliable internal control structure, the books and records of commodity programs should accurately reflect the transactions which have occurred.

CAUSE:

IL did not prioritize the accuracy and completeness of its books and records.

EFFECT:

As a result of the errors and omissions, little reliance could be placed on IL's reports of transactions and operations and the risk of misuse and/or unauthorized use of commodities was increased.

RECOMMENDATION:

We recommend that IL closely review the system for recording and monitoring the commodities, including internal controls, to ensure that books and records are reviewed. Further, requirements for proper review should be included in an IL policies and procedures manual, and implemented.

4. **Written policies and procedures were limited.**

CONDITION:

Accounting and operating procedures, during most of calendar year 1992, were not available. After the absence of procedures was reported by a consultant in late 1992, very limited accounting and operating procedures were prepared, but such procedures were not consolidated in a manual and issued to the staff.

CRITERIA:

Accounting and operating procedures manuals establish internal controls and provide consistency when recording transactions and reduce the possibilities of errors by the staff.

CAUSE:

Management was aware of the importance of the manuals, but did not have an opportunity to prepare such manuals prior to the termination of the program.

EFFECT:

Employees responsible for managing the commodities were confused or uninformed about accounting procedures and were more likely to make mistakes.

RECOMMENDATION:

We recommend that IL closely review the accounting and commodity systems, including internal controls, and in those cases where the procedures have not been documented, prepare the documentation.

5. **Some transactions were not supported with adequate documentation.**

CONDITION:

The CIF central warehouse delivery manifests often did not identify which feeding centers would receive commodities. None of the IL records provided for the typed or printed names of persons signing the forms nor did most forms indicate why the person was signing. Further, signatures were generally illegible and IL did not have a list of persons who were authorized to sign.

CRITERIA:

Documentary evidence of transactions need to clearly identify the receiving parties and to link deliveries to transaction documents. Further, persons signing for shipping and receiving should be held accountable for their actions.

CAUSE:

IL management was unfamiliar with the requirements of adequate documentation and/or failed to prioritize the preparation of adequate documentation.

EFFECT:

The risk of commodity misuse and or unauthorized commodity distribution was increased.

RECOMMENDATION:

We recommend that IL review its commodity system and design a system that includes accountability for the shipping and receipt of commodities.

6. **Shipping and receiving functions were not always separated.**

CONDITION:

An employee of the shipping organization (CIF central warehouse) certified the receipt of commodities by IL and signed physical inventory counts at IL's warehouse.

CRITERIA:

To prevent commodity misuse, responsibilities for receiving commodities and conducting physical inventories should be separated.

CAUSE:

IL did not prioritize the separation of duties between its management of the CIF central warehouse and the IL commodity distribution programs.

EFFECT:

The internal control structure was weakened, thereby increasing the potential for commodity misuse and unauthorized distribution.

RECOMMENDATION:

We recommend that IL closely review the commodity system including the internal controls, and where appropriate, segregate the duties of the warehouse staff so that one individual does not have the ability to control receipt of commodities and the inventories.

7. **Some transactions were not recorded in the books.**

CONDITION:

Some pickup/direct deliveries from the CIF central warehouse were not recorded in the IL receiving and distributing ledger.

CRITERIA:

All commodity transactions should be recorded in the organization's books and records.

CAUSE:

IL did not adequately prioritize the preparation of accurate and complete books and records.

EFFECT:

The risk of commodity misuse and unauthorized commodity distributions was increased.

RECOMMENDATION:

We recommend that IL review its commodity system for recording the commodities, including the internal controls, to ensure that transactions are recorded in the books and reviewed. Further, requirements for proper review should be included in an IL policies and procedures manual, and implemented.

8. Certain IL inspectors reports were missing or not prepared.

CONDITION:

The inspection system was not effectively functioning prior to March 1993. For the 20 feeding center files examined, there were no inspection reports prior to March 1993; one file had no inspection reports.

CRITERIA:

Commodity distribution programs need inspection programs to verify the accountability and distribution of food.

CAUSE:

IL did not prioritize its inspection program prior to March 1993.

EFFECT:

Due to the lack of inspections, the risk of commodity losses from misuse and unauthorized distributions were increased.

RECOMMENDATION:

We recommend that IL review the commodity monitoring system, including internal controls, to ensure that inspection reports are prepared and filed in a timely manner. Further, requirements for proper oversight by management should be included in an IL policies and procedures manual, and implemented.

9. Physical inventories, if taken, were not reconciled to the books, nor were adjustments made.

CONDITION:

IL did not take physical inventories from April to August 1992. Subsequently, IL records of physical inventories consisted of a single undated page with one figure for each commodity. There were no supporting workpapers and no record of reconciliation with book balances. Further, the physical inventory amounts always matched the book balances with no inventory adjustments.

Additionally, two inventory audits were conducted by USAID through a local auditing firm. Significant differences between the book and physical inventory balances were reported, but IL did not provide any written reports explaining the differences nor did IL make appropriate adjustments in its books and records.

CRITERIA:

To effectively account for and control commodities, at least monthly physical inventories of food commodities should be taken including the maintenance of supporting records, dates of inventories, reconciliations and appropriate book adjustments.

CAUSE:

IL did not realize the importance of physical inventories and good record keeping.

EFFECT:

The lack of adequate physical inventories increased the risk of misuse or unauthorized distribution of commodities. In the case of one inventory audit at La Gonave, the value of commodities unaccounted for totaled $22,966.

RECOMMENDATION:

We recommend that IL review the commodity monitoring system, including internal controls, to ensure that physical inventories are periodically taken, reconciled to the books and adjustments made when necessary. Further requirements for proper oversight by management should be included in an IL policies and procedures manual, and implemented.

10. Property was not accounted for, as prescribed.

CONDITION:

Property records were not complete. For example, the non-expendable property was incomplete and there was no list of expendable property.

CRITERIA:

USAID Handbook 13 requires grantees to account for all property, including expendable property. Records showing the necessary information, should be maintained to provide the adequate controls.

CAUSE:

Management did not think it was necessary to maintain such records.

EFFECT:

Lack of adequate property records increases the risk of theft and abuse.

RECOMMENDATION:

We recommend that USAID guidelines be followed for the recording and accounting for USAID property, procedures should be prepared, and included in an IL policies and procedures manual, and implemented.

Attachment A

INTERNATIONAL LIFELINE
UNAVAILABLE OR INSUFFICIENT DOCUMENTATION
QUESTIONED COSTS
September 6, 1991 to September 30, 1993

Agreement PDC-0801-A-00-1084

Date	Check or Journal #	Description	Total Amount	Unsupported Amount	Explanation
10/31/91	3	Joe Senat-Pallets	$320	$320	Documentation Unavailable
10/31/91	4	Paul Amanti Security	1,000	1,000	Documentation Unavailable
11/30/91	1020	Esther Rocourt	500	500	Documentation Unavailable
11/30/91	1033	Esther Rocourt	500	500	Documentation Unavailable
4/1-6/26/92	1156/1239	Four C's Port Clearance	1,714	318	Documentation Insufficient
9/14/92	9/92-009	Port Clearance	115	115	Documentation Unavailable
3/93	Not Avail	R#8420-8411-8386	780	780	Documentation Unavailable
4/30/93	JV007	Dollar to Gourde	9,410	132	Documentation Insufficient
	Total Questioned Costs (1084)		14,339	3,665	

Agreement 521-0000-A-00-2017

Date	Check or Journal #	Description	Total Amount	Unsupported Amount	Explanation
11-4-92	11-92-007	Commodity Distrib	676	676	Documentation Insufficient
12-31-92	12-92-008	Commodity Distrib	500	500	Documentation Unavailable
10-30-92	10-92-026	Port Clearance	60	60	Documentation Unavailable
4-20-93	cd049300014	Savain Transp	269	269	Documentation Unavailable
5-31-93	cd059300031	Generator Rental	620	620	Documentation Unavailable
3-30-93	cd039300038	Security Guards	1,400	1,400	Documentation Unavailable
4-29-93	cd049300027	Security Guards	2,800	2,800	Documentation Unavailable
3-8-93	cd039300008	Port Clearance	80	80	Documentation Unavailable
7-6-93	cd079300007	Port Clearance	40	40	Documentation Unavailable
3-30-93	cd039300034	Commod Distrib	9,614	9,614	Documentation Insufficient
6-18-93	cd069300026	Commod Distrib	9,772	9,772	Documentation Insufficient
6-18-93	cd069300027	Commod Distrib	9,385	9,385	Documentation Insufficient
7-6-93	cd079300003	Commod Distrib	5,000	5,000	Documentation Insufficient
7-6-93	cd079300004	Commod Distrib	1,500	1,500	Documentation Insufficient
7-6-93	cd079300005	Commod Distrib	4,166	4,166	Documentation Insufficient
7-30-93	jv079300002	Commod Distrib	310	310	Documentation Insufficient
8-31-93	jv089300001	Commod Distrib	20,585	20,585	Documentation Insufficient
9-30-93	jv099300002	Commod Distrib	10,126	10,126	Documentation Insufficient
3-18-93	cd039300023	Insp Quality	80	80	Documentation Unavailable
1-27-93	cd019300020	Security Guards	1,400	1,400	Documentation Insufficient
2-26-93	cd029300021	Security Guards	1,400	1,400	Documentation Insufficient
5-31-93	cd059300030	Security Guards	2,800	2,800	Documentation Insufficient
6-8-93	cd069300004	Cazeau PC Rep	90	90	Documentation Insufficient
6-14-93	cd069300014	Cazeau PC Rep	90	90	Documentation Insufficient
6-17-93	cd069300021	Cazeau PC Rep	80	80	Documentation Insufficient
7-1-93	cd079300002	Security Guards	2,800	2,800	Documentation Insufficient
7-6-93	cd079300006	PL480 Transp	350	350	Documentation Insufficient
7-6-93	cd079300007	Cazeau PC Rep	15	15	Documentation Insufficient
7-26-93	cd079300024	Security Guards	2,800	2,800	Documentation Insufficient
8-17-93	cd089300011	Cazeau PC Rep	30	30	Documentation Insufficient
8-23-93	cd089300014	Cazeau PC Rep	135	135	Documentation Insufficient
8-30-93	cd08930021	Security Guards	2,800	2,800	Documentation Insufficient
9-7-93	cd099300001	Cazeau PC Rep	60	60	Documentation Insufficient
9-17-93	cd099300009	Cazeau PC Rep	135	135	Documentation Insufficient
9-29-93	cd099300015	Security Guards	2,800	2,800	Documentation Insufficient
10-21-92	10-92-7	Security Guards	9,508	9,508	Documentation Insufficient
12-15-92	11-92-7	Security Guards	3,300	3,300	Documentation Insufficient
11-4-92	11-92-007	S&S Transport	676	676	Documentation Insufficient
	Total Questioned Costs (2017)		108,251	108,251	

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Date	Check or Journal #	Description	Total Amount	Unsupported Amount	Explanation

Agreement 521-0000-A-00-2005

Date	Check or Journal #	Description	Total Amount	Unsupported Amount	Explanation
10-27-92	10-92-049	Equipment	553	553	Documentation Insufficient
11-3-92	11-92-001	Travel/Transp.	325	325	Documentation Unavailable
10-20-92	10-92-012	Lodging/Travel	273	273	Documentation Unavailable
8-1-92	8-92-001	Commodity Distribution	110	52	Documentation Unavailable
8-19-92	8-92-007	Commodity Distribution	725	725	Documentation Unavailable
8-25-92	8-92-024	Commodity Distribution	153	153	Documentation Unavailable
10-20-92	10-92-011	Commodity Distribution	1,076	1,076	Documentation Unavailable
7-29-92	7-92-012	Commodity Distribution	75	75	Documentation Unavailable
	Total Questioned Costs (2005)		3,289	3,231	

Agreement PDC-521-0000-A-00-2008

Date	Check or Journal #	Description	Total Amount	Unsupported Amount	Explanation
11-3-92	11-92-012	Security Guards	2,000	2,000	Documentation Insufficient
1-28-93	cd019300022	Salaries	8,625	1,975	Documentation Insufficient
1-27-93	cd019300020	Security Guards	1,500	1,500	Documentation Insufficient
2-26-93	cd0293	Security Guards	1,500	1,500	Documentation Insufficient
	Total Questioned Costs (2008)		$13,625	$6,975	

Summary of Unavailable or Insufficient Documentation
Questioned Costs

Agreement	
PDC-0801-A-00-1084	$3,665
521-0000-A-00-2017-00	108,251
521-0000-A-00-2005-00	3,231
FDC-521-0000-A-00-2008	6,975
Total Questioned	**$122,122**

Deloitte & Touche LLP

INTERNATIONAL LIFELINE
PROPERTY NOT RETURNED TO USAID
QUESTIONED COSTS
September 6, 1991 to September 30, 1993

Date	Transaction No.	Description	Amount
Oklahoma City Unreturned Property Costs 1992			
5/31	4271	Note 1	$533.17
10/31	1336	Grainer	718.46
10/31	1343	Grainer	12,187.69
10/31	1349	Grainer	731.26
10/31	4459	AMEX	365.03
10/31	10999 CK 1293	Note 1	1,498.61
10/31	10999 CK 1317	Note 1	34.65
3/31	3066 CK 4160	Note 1	614.11
1/31	1083	Amanti Industries	1,400.00
1/31	1091	Grainer	4,790.40
1/31	1092	International Lifeline	450.52
1/31	4099	Folding Table	50.41
2/29	1114	International Lifeline	363.98
2/29	2004	Chg'd IL Acct	100.83
3/31	4184	Gerard Musucci (Motorcycles)	7,757.14
3/31	1138	Comp Equipt	168.96
7/31	1251	AMEX	25.61
11/30	4492	Citibank	384.00
1/31	1090	International Lifeline	100.83
1/31	4106	Tables	100.83
1/31	4109	Copier	837.98
1/31	4109	Typewriter	155.54
1/31	4109	Calculator	150.20
1/31	4111	Chairs	660.35
2/29	4121	International Lifeline	1,400.00
2/29	4125	International Lifeline	450.52
3/31	4163	Citibank	80.53
4/30	4209	Montgomery Ward	279.00
5/31	4,265	Corp Solutions	1,224.20
5/31	4,256	Inacom	3,479.80
9/30	4,420	Dell Computer	3,750.11
	Total Oklahoma City Unreturned Property (1992)		44,844.72

Date	Transaction No.	Description	Amount
Port–au–Prince Unreturned Property Costs 1992			
9/4	9/92–034	Note 1	105.63
9/30	9/92–039	Note 1	45.27
10/2	10/92–033	Note 1	42.33
10/8	10/92–036	Note 1	42.33
10/8	10/92–037	Note 1	1,057.86
10/8	10/92–038	Note 1	211.67
10/9	10/92–041	Note 1	105.83
10/13	10/92–042	Note 1	1,452.33
10/20	10/92–045	Note 1	105.83
10/21	10/92–046	Note 1	64.53
10/22	10/92–047	Note 1	42.33
10/27	10/92–049	Note 1	519.76
10/29	10/92–051	Note 1	418.63
10/30	10/92–062	Note 1	61.15
11/3	11/92–013	Note 1	37.99
11/27	11/92–031	Note 1	79.65
12/21	12/92–022	Note 1	43.71
10/8	10/92–037	Pallets	353.15
10/8	10/92–038	Pallets	70.56
10/9	10/9–041	Pallets	35.28
10/20	10/92–045	Pallets	35.28
7/24	7/92–004	Note 1	157.20
7/31	7/92–019	Note 1	139.57
9/30	9/92–014	Note 1	358.82
	Total Port–au–Prince Unreturned Property (1992)		5,586.69
Oklahoma City Unreturned Property Costs 1993			
4/92	cd 4/93–11	Ratton Chair	910.10
4/26	cd 4/93–35	Payment Credenza	943.57
5/4	cd 5/93–8	Scounces	267.76
5/8	cd 5/93–13	Light Fan	115.88
5/8	cd 5/93–13	Light Fan	115.88
5/8	cd 5/93–13	Light Fan	125.86
5/17	cd 5/93–25	Deposit Chair #1	134.22
5/17	cd 5/93–25	Deposit Chair #2	134.22
6/4	cd 6/93–8	Floor Lamp	267.36
6/17	cd 6/93–28	Blinds for Office	241.00
6/18	cd 6/93–35	#1 Desk	1,312.06
6/18	cd 6/93–35	#2 Desk	1,312.07
6/18	cd 6/93–35	Payment Credenza	103.28
6/18	cd 6/93–36	#2 Credenza	1,046.86
7/14	cd 7/93–20	Bal Due Chair #1	156.27
7/14	cd 7/93–20	Bal Due Chair #2	156.27
9/30	cd 9/93–42	AMEX Camera	928.47
9/30	cd 9/93–42	Tripod	65.48
4/30	cd 4/93–43	Phone Equipt	544.38
5/5	cd 5/93–9	Check Protector	278.10
5/26	cd 5/93–65	Chair/Desk Controller	182.53
	Total Oklahoma City Unreturned Property (1993)		9,341.62

Date	Transaction No.	Description	Amount
Port-au-Prince Unreturned Property Costs 1993			
4/20	cd 4/93-15	Office Furniture	1,809.54
4/30	cd 4/93-30	8 Desks	112.61
5/5	cd 5/93-4	10 Filing Cabinets	2,789.04
5/7	cd 5/93-10	Desk Payment	93.84
5/14	cd 5/93-18	Desk Payment	109.89
5/21	cd 5/93-21	Desk Payment	70.82
5/27	cd 5/93-32	Desk Payment	104.17
6/15	cd 6/93-17	Typewriter	279.37
4/30	JV 4/93-1	Furniture	2,145.12
5/31	JV 5/93-6	Furniture	3,504.13
2/2	cd 2/93-51	Comp Equipt	1,986.88
5/1	JV 5/93-1	Office Equipt	322.11
6/17	cd 6/93-63	EX-Shredder	322.11
8/17	cd 8/93-38	Tractor Co.	6,200.00
5/26	cd 5/93-65	Chair/Desk	182.53
2/2	cd 2/93-51	Comp Equipt	1,100.16
4/13	cd 4/93-64	Dac Easy Program	125.00
5/26	cd 5/93-65	Answering Machine	80.38
	Total Port-au-Prince Unreturned Property (1993)		21,337.70

Summary of Unreturned Property Costs
Questioned Costs

Oklahoma City 1992	44,844.72
Port-au-Prince 1992	5,586.69
Oklahoma City 1993	9,341.62
Port-au-Prince 1993	21,337.70
Total Unreturned Property	**$81,110.73**

We reviewed the general ledgers for Oklahoma City and Port-au-Prince to determine the total property purchsed by IL and excluded all property which had been returned to USAID. This list does not include the items in finding 6.

The exchange rate at date of purchase was used to convert all Port-au-Prince property costs into dollars.

Note 1
Sufficent information was not included in the general ledgers to identify the item purchased.

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Attachment C

DESCRIPTION OF AGREED-UPON PROCEDURES AND FINDINGS IN CONNECTION WITH COMMODITIES OF INTERNATIONAL LIFELINE/HAITI

BACKGROUND

On March 8, 1991, USAID approved a PL-480 Title II Food For Peace Program agreement with International Lifeline, Inc. (IL). IL imported into Haiti four types of commodities - Soy Fortified Bulgur (SFB), Wheat Soy Blend (WSB), Green Peas and Vegetable oil. The agreement authorized a transfer of food commodities to IL for use in disaster relief, economic development, and other assistance. USAID provided several fiscal year consignments of the commodities: estimated by USAID at 9,333 metric tons. IL also received food commodities transferred to them from other Title II Food For Peace cooperating sponsors in Haiti, including CARE, ADRA and CRS. Deloitte & Touche LLP computed the value of the commodities received by IL under the Food for Peace agreement as $4.3 million during the two year period.

The IL program distributed food commodities to more than 150 feeding centers in Haiti. Many of the centers were not directly under the control of IL because the program design included about 15 subrecipient agencies known as the umbrella group.

IL signed agreements with the umbrella group agencies whereby the agencies would select feeding centers and control the distribution of food commodities. Many feeding centers were schools which used the Title II commodities to feed students on a regular basis. Additionally, IL distributed food to general purpose feeding centers and to feeding center workers. During 1992, the umbrella agencies provided transportation of food from the IL warehouse to the feeding centers. Subsequently, IL provided the transportation under a cooperative agreement with USAID.

IL maintained a warehouse and office in Port-au-Prince, Haiti, to manage the Title II program. For a six month period from September 1992 to February 1993, USAID also authorized IL to manage the COMME-IL-FAUT (CIF) central warehouse in Port-au-Prince which stored food commodities for all PL-480 cooperating sponsors in Haiti.

Prior to IL's Title II program, ADRA headed up the umbrella group. For several years IL was one of the umbrella group members who received food commodities from ADkA for distribution in Haiti under the Federal Government, Section 416, food program.

SCOPE OF PROCEDURES

We performed a preliminary survey of IL's PL-480 Title II program in Haiti. Based on observations of the preliminary survey, we met with USAID representatives to discuss the planned scope of work for the audit of IL's Commodity Statement. As it was determined such statement had not been prepared, these discussions led to the development of agreed-upon procedures to be followed during the remainder of our procedures. The agreed-upon procedures focus on areas of vulnerability identified during the preliminary survey.

Accordingly, we have applied the following agreed-upon procedures for the accounting of Title II commodities managed by IL during its operations from September 6, 1991 to September 30, 1993: (a) verify the accountability of vegetable oil imported under the Title II program, (b) review commodity losses identified in inspection reports, (c) review the information recorded in IL's new ledgers, (d) test the delivery and use of commodities at feeding centers and (e) determine if the cost of improperly accounted for commodities should be recovered.

RESULTS OF PROCEDURES

I. Verify the accountability of vegetable oil imported under the Title II program

To verify the accountability of vegetable oil, we tested the accuracy of the Commodity Status Reports (CSRs) submitted to USAID and we assessed IL's compliance with USAID regulations to maintain adequate records and documents reflecting the receipt, storage, distribution, inspection and the use of commodities. We read the records for the arrival of commodities at IL and the distribution of food commodities to umbrella agencies and feeding centers including pickup-direct delivery, receiving reports, receiving and shipping control ledgers, commodity pickup orders (waybills), delivery manifests and feeding center records of commodity receipt and distribution. We assessed the procedures used for taking physical inventories and reconciling differences between book and physical inventory counts. We also assessed IL's written policies and procedures for managing food commodities.

Among the major weaknesses identified were a lack of written policies and procedures, a lack of documentation to account for beginning inventories and subsequent physical inventories, unexplained missing pages from the waybill ledger and from a central warehouse ledger, lack of warehouse receiving reports, and original delivery manifests not returned to IL.

There appeared to be a lack of individual accountability for receiving, shipping and inventory control. IL forms did not provide for typed or printed names of the signing parties, contain legible signatures nor specify why the signer was attesting.

Since other commodities imported by IL into Haiti under the Title II program were accounted for and distributed in a manner similar to vegetable oil, we concluded that the weaknesses found on accountability for vegetable food oil likely apply to the accountability for other commodities.

COMMODITY STATUS REPORTS

Regulation 11 requires cooperating sponsors to submit periodic summary reports showing receipt, distribution, and inventory of commodities. Accordingly, USAID required IL to submit quarterly CSRs. The following shows the status of all commodities in kilograms between the period April 1, 1992 through September 30, 1993 as reported by IL in their quarterly status reports.

Commodity	SFB	WSB	PEAS	OIL
A. Physical Inv Beg of Project	112,585	5,000	1,010,658	552,287
B. Total Receipts	4,471,990	446,153	1,130,065	975,646
C. Total Distributions	4,091,611	437,742	2,110,881	1,387,315
Unexplained Adjustment (found by D&T)	**(5,698)**	**2,241**	**7**	**1,079**
Total Distributions	4,085,913	439,983	2,110,888	1,388,393
D. Balance according to Documentaton	498,662	11,170	29,836	139,539
E. Ending Physical Inventory	0	0	0	0
F. Difference between D and E	498,662	11,170	29,836	139,539
Ocean freight losses	458,838	4,021	32,954	22,051
Internal losses	111,000	9,895	1,450	5,257
Loans made to other agencies	25,000	0	0	134,080
Total diff accounted for (a-d)	594,838	13,917	34,404	161,388
Total differences unaccounted for	0	0	0	0
Unexplained Difference (found by D&T)	**96,176**	**2,747**	**4,568**	**21,849**

In order to determine the accuracy of CSRs, we compared the amounts of vegetable oil shown on IL's CSRs for the audit period with IL's books and records. To make this comparison, we had to convert the CSR reported amounts to cases of vegetable oil because IL's books and records showed cases as a measuring unit. The comparison found significant differences. For example:

- -- IL records showed a beginning inventory of 3,336 cases of food oil on April 1, 1992 while the CSR showed 25,058 cases.
- -- In total, IL books and records showed significantly smaller amounts of distributions compared to the IL CSR for the same time periods, as shown below:

Period	Number of cases Ledger	CSR	Difference
1992			
April-June	5,249	3,730	1,519
July-September	21,868	40,951	(19,083)
October-December	4,586	3,992	594
1993			
January-March	4,297	3,729	568
April-June	4,520	4,349	171
July-September	6,205	6,194	11
TOTAL	46,725	62,945	(16,220)

IL did not comply with our request to provide its supporting records for the beginning inventory and distributions of vegetable oil as stated on the IL CSRs. Additionally, IL did not comply with our request to provide IL's worksheets used in preparing CSRs. Without such worksheets, we were unable to determine how IL prepared its CSRs.

The IL President informed us that the IL CSRs were incorrect. However, the President would not provide us information on known errors and/or omissions. According to the President, the errors resulted because IL had a general lack of experience in food aid including preparation of CSRs. Although requested, the President did not furnish us written representation that the CSRs prepared and sent to USAID were accurate and complete. Based on noted inconsistencies and the lack of supporting documentation and management representation, we concluded that the CSRs inadequately accounted for commodities.

RECEPTION OF COMMODITIES FROM THE PORT

Title II cooperating sponsors should establish systems and records for recording and accounting for the receipt of imported commodities and for other internal commodity receipts. The records should follow accepted accounting practices, such as the use of a prenumbered control log and prenumbered receiving documents. The documents should ensure a clear control trail, such as information showing when and where the commodities were received, the amount, and the condition of the commodities received. Further, receiving documents and reports should be signed and dated by designated receiving personnel.

IL records of commodity receptions were insufficient to assure that all commodities received were recorded in the ledger. IL maintained a notebook for commodities received from the port but the notebook did not have prenumbered pages, did not use a numbering system nor was it signed by IL or delivery officials. Some IL receiving reports were unnumbered and there was no receiving report control log. IL's principal receiving reports for delivery from the port were surveys prepared by an independent contractor. While these reports are essential and required by USAID, they do not substitute for appropriate receiving reports and records at IL's warehouse.

PICKUP/DIRECT DELIVERY FROM THE COMME-IL-FAUT (CIF) CENTRAL WAREHOUSE

Commodity transactions such as pickup/direct delivery, which occur outside the direct control of the warehouseman, are considered to be vulnerable. Accordingly, this requires the installation of extra precautions to avoid misuse or unauthorized distribution of commodities. In particular, there should be effective linkage, by cross-reference, between the CIF central warehouse and IL documents, such as waybills and delivery manifests. Additionally, the forms used to control the transactions should conform to standards of internal control for other commodity transactions, including control logs for assigning reference numbers, prenumbered pages on control logs and prenumbered forms.

Further, there should be good linkage between USAID authorizations for transfer from the CIF central warehouse, IL authorization to give commodities to drivers, CIF shipment manifests, CIF ledgers for shipments to IL, IL receiving documentation and IL's receiving and distribution ledger.

Under the pickup/direct delivery system, IL picked-up commodities from the CIF warehouse and delivered them directly to sub-recipient agencies and feeding centers. Such pickups needed USAID's authorization to transfer commodities from the CIF central warehouse to IL. Documents to support these shipments included the CIF warehouse distribution ledger and delivery manifests, and IL receiving reports.

We assessed IL records and books to determine if such transactions were adequately recorded. Our procedures found that the internal control structure for accounting for pickup/direct delivery transactions was weak.

-- The IL receiving report called RECU DU DEPOT was often certified as true and correct by an IL employee working at the CIF central warehouse. This obscured the nature of the form making it impossible to tell whether the form was a CIF shipping form or an IL receiving form.

  More importantly, this raised serious questions about the internal control structure when an employee of the shipping organization is allowed to sign documents for the receiving organization. The same employee signed physical inventory counts at IL's warehouse, thereby further weakening the internal control structure.

-- Pages were missing from the CIF ledger used to record transfers to and from the IL account.

-- The CIF delivery manifest often did not identify feeding centers where the food was to be delivered.

-- None of the records provided for the typed or printed name of persons signing the forms nor did most of the forms indicate why the person was signing. The signatures were generally undated and illegible.

-- IL assigned numbers to most of the transactions, but did not use a control register for assigning the numbers. Thus, we had no assurance that all such transactions were entered on IL's books and records.

-- IL did not cross-reference its waybills with records of pickup/direct deliveries nor did it cross-reference them to applicable USAID transfer authorizations.

We found a number of pickup/direct delivery transactions that were not accounted for adequately.

-- Pickups at the CIF warehouse that were not recorded in IL's ledger as receipts.

a. In two instances of 250 and 525 cases, IL did not provide us the USAID authorizations for the transfer of commodities from the CIF central warehouse to IL. The CIF delivery manifests had no receiving signatures. CARE provided us certain documentation on reception of 775 cases but the documentation did not indicate that the oil came from IL's account at the CIF warehouse. (CIF References 85 and 86; August 17 and 18, 1992).

b. No receiving reports or entry on IL books and records.

535.5 cases	Additionally, the CIF delivery manifest had no receiving signature. (CIF Reference 22; October 8, 1992)
211.0 cases	(CIF Reference 23; October 9, 1992)
611.0 cases	(CIF References 31, 32, 34, 35, 36, 37 and 40; October 13, 1992).
382.3 cases	(CIF References 41, 42 and 44; October 14, 1992)

-- USAID authorized a transfer of 5,000 cases to IL. Both the IL and CIF records showed numerous IL pickups to accomplish the transfer of 5,000 cases. However, IL's records often differed from CIF records as to the amounts picked-up, amounts delivered, and the names and locations of feeding centers.

a. Total IL receipts appeared to be 200 cases above the authorized 5,200 cases. This amount was determined by totaling (a) the nine depot receipts of 3,550 cases which IL said were for the 5,000 case transfer, (b) 433 cases registered in the old IL ledger which IL also said belonged to the 5,000 transfer, (c) a reduction in the transfer authorization of 1,136 cases, and (d) the ending balance of 81 cases which were not transferred according to the CIF ledger.

b. In three instances, the CIF ledger and delivery manifests differed completely indicating possible duplicate billing and a lack of accounting.

1. The IL depot receipt showed delivery of 508.4 cases. The cross-referenced CIF delivery manifests (34 through 37) only totaled 445 cases so the CIF delivery manifest Number 36 was amended to add 62.5 cases to arrive at the total 508.4 cases. The amendment, however, was made in ink on a photocopy of the manifest. Moreover, the CIF delivery manifests included delivery of 400 cases in St. Michel, but IL's ledger showed the entire 508.4 cases delivered to a different organization and location (CCC Petion Ville). (Reference 2-A; October 13, 1992)

2. The amount of 276.4 on the CIF delivery manifests differs completely from IL's receiving and distribution ledger. (CIF references 53, 54, 56, 57; IL Reference 6-A; October 19, 1992)

3. In this instance, the same inconsistencies occurred, but in addition, the CIF delivery manifest for 219 cases of oil was not signed as received by the feeding centers (Reference 7-A; October 20, 1992).

-- No USAID transfer authorization and no CIF delivery manifests for these pickups. IL said these amounts were included in the 5,000 cases that USAID authorized. However, the CIF ledger did not include these distributions in its accounting for the 5,000 cases.

a. 967.4 cases (Reference 8-A; October 23, 1992).

b. 464.0 cases. In addition, the IL receiving report signature was undated and signed by an IL employee of the CIF central warehouse (Reference 3-A; October 14, 1992).

The amount of commodities not accounted for totaled $103,052 which is included as Questioned Costs Number 1. We did not examine transactions for SFB, WSB, and green peas in detail but believe weaknesses found on records of vegetable oil apply to the records of these other commodities. For example:

-- The forms used for pickup/direct deliveries of SFB were completely inappropriate and raised questions about whether the transaction was a commodity distribution or, in fact, a sale of commodities. Instead of using delivery manifests or waybills, the direct pickups of SFB from the CIF warehouse in August 1992 were supported with a form called "Receipt of Cash Sale". In some instances, the "Cash Sale" had been crossed out and "Delivery" had been written in its place. These forms were intended to be cash receipts and did not contain appropriate information for use as waybills or delivery manifests.

COMMODITIES RECEIVED FROM OTHER AGENCIES

According to IL's Fiscal Year 1992 annual report to USAID, IL received 20 containers of oil (containing an estimated 16,000 cases) from ADRA in April 1992 from a 1991 shipment. The report says the oil was in bad condition and had to be destroyed.

The IL President disclaimed any knowledge of the 20 containers and said he does not know why it was included in the annual report. According to ADRA officials, its records do not show such a transfer of vegetable oil to IL but ADRA records do show transfers of oil to IL in 1991 under the 416 Federal food program. IL acknowledges that it received oil under the 416 program. However, IL did not comply with our request to make such information available for our procedures.

We could not determine if IL received the 20 containers of oil as reported in its annual report. The value of these commodities estimated at $320,160 is included as Questioned Costs Number 2 because (a) IL choose to include the 20 containers in its official annual report, (b) IL did not provide a reasonable explanation why it might have erroneously included the reception of the oil in its report, and (c) IL CSRs for the time period vary widely from IL books and records.

In addition to commodity receipts from other agencies, IL received commodity returns from umbrella agencies and feeding centers. IL assigned reference numbers to these receptions but did not maintain a control log for assigning the numbers. Thus, we had no way of knowing if all returns were recorded.

RECEIVING AND SHIPPING CONTROL LEDGERS

These ledgers are IL's primary control over commodity receipts and shipments. In order to maintain effective controls, such ledgers should be in bound books and should have prenumbered pages. Additionally, every number entered in the ledger should be supported by a reference to a supporting document. For effective inventory control, book balances should be tallied at the end of each day.

Our tests of the receiving and shipping control ledgers maintained by IL found a number of weaknesses that resulted in less than satisfactory accounting and control over commodities. For example, from April 1992 through September 1992, the ledger consisted of a loose leaf notebook with unnumbered pages. We found one vegetable oil page in the notebook section reserved for green peas. Commodity receptions were casually noted without reference to receiving reports for which there generally were none. Distributions were itemized but without reference to waybills or feeding center code numbers or other control documents. The beginning stock on hand was not supported by inventory records or reference to any supporting documents. Daily balances on hand were noted from April 1 to May 15, 1992 but not thereafter.

Beginning in October 1992, IL used a 13 column worksheet for its control ledger. The pages in this ledger were unbound and unnumbered. Based on the cleanliness of the ledger and the apparent use of only one type of ink pen, the ledger had the appearance of being prepared after the fact. The ledger contained a number of errors and was not cross-reference to waybill numbers. The ledger contained two shipments with the number "00" without adequate cross-reference to supporting documentation.

In 1994, IL prepared a revised ledger to replace the loose leaf notebook for the April-September 1992 time period. The revised ledger, however, did not account for differences between the beginning balance on the revised ledger and the apparent ending balance in the loose leaf notebook. The revised ledger contained numerous clerical errors, did not provide daily inventory balances, and did not record a receipt of 4[illegible]3 cases of oil transferred from the CIF warehouse. The amount of the unaccounted for differences is included as Questioned Cost Number 5.

COMMODITY PICK-UP ORDERS (WAYBILLS) AND DELIVERY MANIFESTS

This was IL's primary control over the orders for shipment of commodities to feeding centers. The waybills were listed in a ledger and then sent to the warehouse as an authorization to ship the commodities. Beginning in October 1992, IL began using delivery manifests in addition to the waybills.

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In order to effectively control documentation and to help prevent the unauthorized use or diversion of commodities, the ledger should have been prepared on prenumbered pages and the waybills and delivery manifests should have been on prenumbered forms. These documents should have contained essential information such as (a) the location of pickup and delivery, (b) the name and code number of the receiver, and (c) signatures and certifications of responsible officials including the typed or printed names of signing parties and their organizational position. To maintain document control and to help prevent misuse and unauthorized distribution of commodities, the original copy of shipping documents should have been returned to IL. Moreover, IL should have maintained a list of individuals authorized to sign for commodities at umbrella agencies and feeding centers.

Based on our tests of these documents, we found the IL waybills, waybill ledger and delivery manifests to be inadequate. The documents generally did not identify if the commodities would be picked-up at the IL warehouse or the CIF central warehouse. While the waybill ledger consisted of a bound book with prenumbered pages, pages eight through thirteen had been torn out of the ledger without explanation. The waybills and delivery manifests were not prenumbered and the delivery manifest was designed so that the original copy stayed with the feeding center instead of returning it to IL. The ledger listed the feeding center code number but not the feeding center name thereby increasing the risk of errors.

Additionally, the documents did not provide for typed or printed names of signing parties, and did not define why the parties were signing or who should sign. The waybill did not provide for a warehouse signature. While the waybill required a witness's signature of the receipt, it did not identify the authorized personnel who could sign as a witness. According to the IL President, IL had not identified personnel authorized to sign as witnesses on the waybill.

Moreover, IL did not maintain a list of authorized names for receiving commodities at umbrella groups or at feeding centers. Signatures were frequently illegible on the forms. As a result, we could not compare actual signatures with names authorized to receive commodities.

In order to determine the accuracy of IL's control ledgers, IL's ledger and waybills were tested for the time period May 15, 1992 to September 30, 1993. This was done by comparing 601 distributions of vegetable oil (32,800 cases) recorded in the IL ledger with individual waybills.

Our tests found numerous weaknesses in the documentation for vegetable oil transactions. Of the 601 waybills examined, our tests found that:

- -- 334 had no witness signature,
- -- two waybills (391003, 391013) had been signed by the IL Deputy Director thereby creating a conflict of interest whereby a member of the shipping organization signed as witnessing the reception of commodities at the receiving agency.
- -- one waybill (391216) had the same signature for receiving and witnessing,

-- four waybills had feeding center names that did not match the feeding center code number (392756, 392767, 392814, 391854), and

-- one delivery manifest had no date (000658) and one had no driver's signature (000698).

Our tests found a number of questionable transactions involving pickup/direct deliveries which have already been included under Questioned Costs Number 1. In addition, our tests found the following transactions with duplicate entries, lack of receiving or authorizing signatures, and other unacceptable documentation. These transactions, with a total commodity value of $147,936, are included as Questioned Costs Number 3.

-- Duplicate listing on the ledger: references 391227, 391237, 391443, 391533, 391471, 391502.

-- No receiving signature on the waybill: references 391323, 391176, 391166, 391628, 391617, 391621.

-- No authorization signature on the waybill: reference 391572

-- Original waybills were undated but the carbon copies were dated in ink. In the second and third case a driver and vehicle verification paper was attached to the waybill and signed by a driver, but the paper did not contain the amount of commodities, the feeding center name, nor the waybill number: references 391147, 391347, 391348.

-- The IL ledger showed four distributions totaling 37 cases of oil on April 20, 1992, while the entry was recorded May 20, 1992, after the entire inventory balance had been reduced to zero. No reference number.

-- The balance of the IL ledger was reduced on May 15, 1992 without reference to supporting documentation.

-- Commodity loans to CARE totaling 6,400 cases had little documentation. There were no loan requests or loan agreements; the only receiving signatures on the IL waybills (391362, 391538) were truck drivers reportedly hired by CARE. CARE officials provided us with receiving documents indicating reception of the 6,400 cases but CARE's CSRs did not record the loans. Since we did not audit CARE records, this will remain a questioned cost.

PHYSICAL INVENTORIES AND RECONCILIATIONS

In order to determine if IL physical inventories had been reconciled to the books and records, we tested the records of IL physical inventories. Additionally, we determined if the results of inventories taken by a local audit firm had been considered and any differences between the two had been reviewed by IL and appropriate action had been taken.

IL did not take physical inventories during the first five months of operations under the Title II program (April to August 1992). Subsequent to August 1992, IL apparently performed physical inventories, but the records of such inventories were unacceptable because the physical inventory records were undated and consisted of one figure for each commodity. Further, there were no supporting workpapers and no record of reconciling physical inventories to book balance. We also noted that the physical inventories usually matched the book balances with few inventory adjustments.

One case was found during a three month period in 1992, when the IL warehouseman also took physical inventories, but the records of his inventories had the same weaknesses. They were such weaknesses as, physical inventories did not establish a cut-off point during the day, so there was no ending book balance with which to compare the physical inventory count. For example, the October 13, 1992 physical inventory of oil (4,843 cases) does not compare with (a) the beginning book balance for October 13 (5,032 cases), (b) the book balance after each of eleven distributions during the day, and (c) the ending book balance (4,323 cases).

During the program, USAID conducted two inventory audits (October 1992 and January 1993) through a local auditing firm. Both audits found and reported significant differences between the book and physical inventory balances.

USAID requested the first inventory audit in October 1992. The auditors made a physical inventory of commodities that IL had delivered to La Gonave. Since the IL warehouse at La Gonave did not maintain a running book balance, the auditors determined the book balance by subtracting IL distributions from amounts delivered by IL to La Gonave. The audit report, dated October 31, 1992, found shortages of SFB, green peas and vegetable oil.

IL did not provide a written report to USAID explaining these commodity shortages. During our audit, the IL President stated that IL had reconciled its records with the October 31, 1992 audit report. Although requested, IL did not provide us the reconciliation at the time of the audit. During the final review of our draft report, IL sent us a package of photocopied documents without indicating whether the same information had been sent to USAID as evidence of a final reconciliation of the unaccounted for commodities.

The second inventory audit was for all commodities stored at the IL warehouse in Port-au-Prince. The inventory audit report compared the book balance as shown on the IL CSR for the time period with the auditors' physical inventory count and compilation from IL records. This comparison found significant variances as follows:

Commodities in Kilograms

Commodity	Commodity Status Report	Physical Inventory	Difference	Dollar Value
SFB	2,199,441	2,614,200	414,759	$162,586
Peas	1,639,290	900,650	(738,640)	(296,195)
Oil	1,072,774	573,378	(499,396)	(408,052)
WSB	108,808	156,125	47,317	28,532

The IL President said that a reconciliation was not performed because, when all commodity differences were added, the net difference was only three kilograms. According to USAID, IL had acknowledged weaknesses in its commodity tracking system prior to September 30, 1992 which made it impossible to reconcile the discrepancies between the commodity status reports and the actual physical count performed by the physical inventories. The value of commodity shortages at La Gonave totaling $22,864 is included as Questioned Costs Number 4.

WRITTEN POLICIES AND PROCEDURES

IL generally did not have written procedures for commodity management and record keeping pertaining to the receipt, storage, distribution, and use of commodities. Individual transactions were obscured and the process of tracing transactions was in some cases impossible. We noted an absence of written policies and procedures for:

-- inspecting commodities arriving at the port and at IL,

-- preparing Commodity Status Reports,

-- preparing commodity books and records, including waybills and control ledger,

-- conducting physical inventories, including reconciling inventory results with books and records,

-- authorizing specific IL officials to approve the distribution of commodities,

-- authorizing specific feeding center officials to receive commodities,

-- defining the allowability of distributing food to students on weekends and during summary vacations,

-- recording the use of Federally financed vehicles, and

-- preparing claims for lost or misused commodities.

In conclusion, the lack of written policies and procedures resulted in a general lack of internal controls.

II. Review commodity losses identified in inspection reports

USAID required IL to put in place a commodity inspection system. In order to determine if commodity losses identified by IL inspectors were properly reported, we determined the frequency of inspections performed and selectively read inspection files. We selected the inspection files of 20 feeding centers including (a) sixteen centers selected arbitrarily from the filing cabinet drawer and (b) four centers for which IL had terminated participation in the program. The 20 files contained 63 inspection reports between March and September 1993 of which 55 were analyzed. IL's inspection staff included two inspectors in 1992 and eight in 1993. In order to verify the trips made by inspectors, we determined if IL maintained trip logs for vehicles.

IL made substantial numbers of inspections during the last six months of operation. According to IL records, IL inspectors performed 134 inspections in July, 1993, and 149 inspections in August, 1993. No summary records, however, were maintained during earlier time periods. IL did not maintain vehicle trip records so we could not use such records to verify IL inspections.

During earlier time periods, inspections were apparently infrequent. Of the 20 feeding center files reviewed, no inspections prior to March, 1993 were found. One file (02-251) had no inspection reports.

The inspection reports identified losses at most centers. Of the 20 center files examined, minor losses were reported at 17. These losses were determined by comparing the centers' book balances with physical inventories and noting any differences. The inspection reports also noted a number of management weaknesses needing correction.

Based on our observations of the inspection reports, we concluded that the inspection system was not effectively functioning prior to March 1993 but that the system appeared to be providing sufficient coverage after that time to meet USAID requirements.

III. Compare the beginning balances recorded in IL's new ledgers with the ending balance in IL's old ledgers

In October 1992, IL began using a different type of commodity control ledger than that previously used. We were advised that beginning commodity balances on this new ledger were based on IL's physical inventory which, according to our analysis, differed from the apparent ending balance in IL's old ledger.

Ending and beginning balances of vegetable oil were analyzed on the 13 column and the revised ledgers to determine if there were any unaccounted for differences. To make the analysis, the old book balance was determined by subtracting all commodity distributions listed on IL's reconstituted distribution log for April 1992 through September 1992 from receptions listed on the old ledger. The old book balance was then compared with the beginning balances on the new ledger which IL said was based on IL's physical inventory of commodities.

Our analysis found that the beginning balance in the new ledger for vegetable oil was 533 cases less than the book balance in the old ledger. No such analysis was made for SFB, WSB and green peas because (a) IL had not created a revised ledger for these commodities and (b) the condition of the books and records were such that data on actual and book commodity balances was incomplete and inconclusive.

A written reconciliation accounting for the shortage of 533 cases of vegetable oil was requested from IL but not received. IL representatives said that 215 cases of the difference can be explained by two reports of spoiled vegetable oil (125 and 90 cases). We noted that the spoiled vegetable oil referred to by IL was imported in June 1991 prior to the commencement of the Title II program. The value of these unaccounted for commodities, $10,665, is included as Questioned Cost Number 5.

IV. Test the delivery and use of commodities at feeding centers

The adequacy of documentation and accounting for commodities was assessed during visits to three feeding centers. Interviews were held with appropriate center personnel and documents were examined for commodity reception and distribution to beneficiaries. We also attempted to verify delivery of commodities to subrecipients and feeding centers by cross-checking the deliveries with transportation invoice trip tickets from April-September 1993. Because the program had been terminated, commodity controls and feeding procedures could not be observed. For this reason, and because the reliability of some feeding center records was questionable, as explained below, visits were not made to additional feeding centers.

Further, the eligibility of beneficiaries receiving commodities under broad categories of feeding, including Food For Work, was assessed. Under the later category, USAID authorized IL to distribute commodities as Food For Work projects that would enhance agricultural or other production, market development, or address certain environmental crises exacerbated by the wasting of the land and other natural resources, including trees. Proposals for specific Food for Work projects were to be submitted by community representatives.

Based on the results of our assessment, we concluded that the reliability of feeding center records was questionable. The beneficiary identification/punch cards were supposed to be carried by the beneficiary and presented when obtaining a meal. Based on the clean and unwrinkled appearance of most cards, the cards appeared to have been kept by the feeding center and punched at the end of the month. Moreover, some cards were punched seven days a week while the monthly beneficiary report showed commodity distribution during five days per week.

Further, we could not verify commodity deliveries by cross-checking to records of transportation to sub-recipients and feeding centers. None of the transportation invoices contained copies of waybills or lists of commodity shipments. In addition, the reliability of such invoices was questionable because they were composed of photocopies of the trucking company stationery.

Based on our assessment of the eligibility of beneficiaries, we found that IL made unauthorized distribution of food commodities designated as Food For Work. IL did not distribute Food for Work as authorized by USAID but rather provided such commodities as hot lunches to its employees and authorized the feeding centers to distribute such commodities as wages to feeding center employees. The total amount of unauthorized distributions to IL and feeding centers during the six month period April to September, 1993 was $99,944 which is included as Questioned Cost Number 6.

V. Determine the cost of improperly accounted for commodities

USAID advised us that questioned costs for commodities should be valued based on actual cost information maintained by USAID during 1992 and 1993. USAID provided this cost information which, when averaged out over 1992 and 1993, showed the following costs of commodities.

Commodity	Cost (Kilogram)	Cost (Sack/Case)
Vegetable Oil	$.908	$20.01
Soy Fortified Bulgur	.392	19.60
Wheat Soy Blend	.603	15.06
Green Peas (dried)	.401	20.03

We computed the value of the commodities received by IL under the Food for Peace agreement as $4.3 million during the two year period. The following costs were questioned as the result of our procedures:

	Reason	Amount
1.	Unaccounted for vegetable oil under the pickup/direct delivery system	$103,052
2.	Unrecorded receipt of 20 containers of vegetable oil	320,160
3.	Unsigned, duplicate or otherwise unsupported waybills	147,936
4.	Inventory shortage at La Gonave	22,864
5.	Unaccounted for shortage of vegetable oil when IL started a new control ledger	10,665
6.	Unauthorized use of Food For Work commodities	99,944
7.	Proceeds from the sale of unfit commodities	722
8.	Proceeds from the sale of commodity sacks	17,500
	Total Value of Questioned Costs	$722,893

1. **Unaccounted for vegetable oil under the pickup/direct delivery system**

Cases	Number of Reference
250.0	CIF 85, 08/17/92
525.0	CIF 86, 08/18/92
535.5	CIF 22, 10/08/92
211.0	CIF 23, 10/09/92
611.0	CIF 31, 32, 34, 35, 36, 37, 40, 10/13/92
382.3	CIF 41, 42, 44, 10/14/92
200.0	IL depot receipts and CIF ledger
508.4	CIF 34, 35, 36, 37; IL 2-A, 10/13/92
276.4	CIF 53, 54, 56, 57; IL 6-A; 10/19/92
219.0	CIF 59, 60; IL 7-A; 10/20/92
967.4	8-A, 10/23/92
464.0	3-A; 10/14/92
5,150	Total cases
$103,052	Total value

RECOMMENDATION:

We recommend that the $103,052 for vegetable oil that cannot be accounted for by IL, be paid to USAID.

2. **Unrecorded reception of vegetable oil in April 1992**

Number of containers unrecorded	20
Approximate number of cases per container	800
Estimated total number of cases unrecorded	16,000
Value of unrecorded cases	$320,160

RECOMMENDATION:

We recommend that the $320,160, for 20 containers of vegetable oil included in the IL 1992 fiscal year annual report to USAID that cannot be accounted for by IL, be paid to USAID.

3. **Unsigned, duplicate or otherwise unsupported waybills for vegetable oil**

Number of Cases	Waybill	Date
9.4	391227	06/24/92
		06/30/92
2.4	391237	06/24/92
		06/29/92
12.3	391443	08/27/92
		08/27/92
7.4	391533	06/14/92
		06/15/92
30.4	391471	09/29/92
		09/29/92
12.3	391502	09/04/92
		09/07/92
2,400.0	391362	08/06/92
4,000.0	391538	09/09/92
9.1	391323	07/21/92
12.0	391176	06/05/92
22.0	391166	06/05/92
7.4	391628	10/14/92
2.4	391617	10/12/92
2.4	391621	10/22/92
628.0	391147	06/12/92
84.0	391347	07/27/92
61.2	391348	07/27/92
31.4	391572	10/08/92
37.0	ledger	04/20/92
22.0	ledger	05/15/92

Total 7,393.1 Cases

Total $147,936

RECOMMENDATION:

We recommend that the $147,936, for 7,393.1 cases of vegetable oil that cannot be accounted for by IL, be paid to USAID.

4. **Inventory shortage at LaGonave**

October 13, 1992

Commodity	Book Balance	Physical Inventory	Shortage	Value
SFB (Sacks)	886.0	345.0	541.0	$10,604
PEAS (Sacks)	1,042.5	827.0	215.5	4,316
Oil (Cases)	1,137.4	740.3	396.5	7,934
Total				$22,854

RECOMMENDATION:

We recommend that the $22,854, for LaGonave commodities that cannot be accounted for by IL, be paid to USAID.

5. **Unaccounted for shortage of vegetable oil when IL started a new control ledger**

Number of Cases of Vegetable Oil

Receipts prior to September 30, 1992:		
Shipment 531	28,827	
Shipment 224	4,191	
Transfer from CARE	433	
Total receipts		33,451
Less distributions		27,115
Calculated balance of old ledger		6,336
New ledger beginning balance:		
Shipment 531	1,719	
Shipment 224	4,084	
Beginning balance		5,803
Unaccounted for cases of vegetable oil		(533)
Total Value		$10,665

RECOMMENDATION:

We recommend that the $10,665, for shortages of vegetable oil that cannot be accounted for by IL, be paid to USAID.

6. **Unauthorized use of Food For Work commodities**

Period Covered
April through September 1993

Commodity	Number of Kilos	Value in Dollars
SFB	157,120	$ 61,591
Vegetable Oil	22,832	20,731
Green Peas	43,945	17,622
TOTAL	223,897	$99,944

RECOMMENDATION:

We recommend that $99,944, in unauthorized use of Food For Work commodities, be paid to USAID.

7. **Proceeds from the sale of unfit commodities were not returned to the Government.**

CONDITION:

IL sold 141 bags of soy fortified bulgar for $771.53 that was unfit for human consumption. The money received for the unfit commodities was held by IL, rather than returning it to the Government.

CRITERIA:

USAID regulation 11 requires that the proceeds from the sales of unfit commodities be deposited with the U.S. Disbursing Officer American Embassy.

CAUSE:

IL management was withholding the money until such time that the audit was complete.

EFFECT:

IL was holding $771.53 that belonged to the U.S. Government.

RECOMMENDATION:

We recommend that IL pay to the U.S. Disbursing Officer American Embassy $771.53 from the sale of unfit commodities.

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8. Proceeds from the sale of commodity sacks were not returned to the Government.

CONDITION:

IL received at least $400 from the sale of used commodity sacks. We believe that more sacks were sold, but could not determine the amount of proceeds received from the sales because IL did not maintain records on such sales. Visits to the local market disclosed that the retained value of one sack was about $.30 and the wholesale value was $.15. A review of the commodity status reports showed that the 5.9 million kilos of commodities received by IL would have generated about 117,000 used commodity sacks, which could have resulted in sales proceeds to IL of $17,500 (based on the wholesale value).

CRITERIA:

USAID regulation 11 requires cooperating sponsors to account for proceeds received from the sales of used containers and to use such proceeds only on USAID approved program expenses.

CAUSE:

IL management indicated that the funds were being held by IL until such time that guidance could be obtained from USAID.

EFFECT:

IL could be holding at least $17,500 belonging to the U.S. Government.

RECOMMENDATION:

We recommend that IL pay to USAID the $400 in proceeds from the sale of used containers and account for and pay any proceeds generated from the remaining containers, which could have resulted in about $17,500.

Attachment D

INTERNATIONAL LIFELINE
EXCHANGE RATE TABLE (US DOLLAR TO HAITIAN GOURDE)
For the period September 6, 1991 to September 30, 1993

Month/Day	1990	Month/Day	1991	Month/Day	1992	Month/Day	1993
Mar 06	7.26	Jan 01	8.26	Feb 26	8.80	Jan 06	11.39
Mar 21	7.32	Jan 07	7.17	Mar 18	8.91	Feb 09	13.43
Mar 28	7.34	Jan 11	7.20	Apr 02	9.11	Feb 19	12.50
Apr 04	7.37	Jan 16	7.66	Apr 08	9.26	Mar 03	11.20
Apr 18	7.20	Jan 23	7.86	Apr 10	9.38	Mar 12	13.48
Apr 24	7.24	Feb 06	7.89	Apr 29	9.36	Mar 24	13.52
May 03	7.33	Feb 15	7.55	May 13	9.44	Mar 31	13.84
May 15	7.38	Feb 20	7.83	May 21	9.56	Apr 07	13.67
May 23	7.41	Mar 06	8.04	May 26	9.66	Apr 20	13.52
May 31	7.38	Mar 13	8.00	Jun 03	10.09	Apr 27	13.32
Jun 7	7.41	Mar 20	8.04	Jun 10	11.01	May 11	13.65
June 12	7.61	May 07	7.36	Jun 17	11.26	May 21	14.12
June 20	7.60	May 15	7.39	Jun 24	10.18	May 26	14.40
Jun 26	7.59	May 29	7.79	Jul 06	10.06	Jun 02	15.02
Jul 05	7.53	Jun 05	7.66	Jul 08	10.13	Jun 08	15.66
Jul 18	7.51	Jun 20	7.61	Jul 15	10.21	Jun 22	14.12
Jul 25	7.54	Jun 26	7.63	Aug 05	9.94	Jun 30	14.20
Aug 01	7.51	Jul 03	7.49	Sep 16	10.50	Jul 06	13.98
Aug 08	7.54	Jul 10	7.47	Sep 30	10.26	Jul 13	12.96
Aug 16	7.56	Jul 15	7.44	Oct	10.63	Jul 28	12.52
Aug 22	7.54	Sep 04	7.47	Nov 18	10.97	Aug 03	12.51
Aug 29	7.56	Sep 11	7.55	Nov 24	11.30	Aug 10	12.43
Nov 14	8.19	Sep 17	7.56	Nov 30	11.53	Aug 17	12.61
Nov 19	8.26	Sep 24	7.61	Dec 07	11.29	Aug 31	12.71
Nov 29	8.29	Oct 04	7.50	Dec 17	11.44	Sep 01	12.61
Dec 03	8.32	Oct 28	8.21			Sep 03	12.71
Dec 10	8.30	Nov 06	8.80			Sep 23	12.35
Dec 12	8.24	Nov 12	8.83			Sep 27	12.55
		Dec 01	8.52			Oct 27	12.40
		Dec 18	8.55			Nov 03	13.02

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