



Project
Concern
INTERNATIONAL®

PD-ABK-575
93475

MAY 4, 1994

Mr. Carl Leonard
Director
U.S.A.I.D.
American Embassy
La Paz
BOLIVIA.

SUB: INTERNAL REVIEW OF TITLE II PROGRAM

Dear Carl:

Enclosed is a complete copy of the PL 480 Title II Internal Review on PCI's program in Bolivia. A second copy of this report is being provided to Jack Sleeper and Sal Pinzino, as well.

The review was conducted by Mr. Larry Hirschler, a highly qualified independent consultant, with prior experience with the A.I.D. Inspector General and the U.S. General Accounting Office. The review is very thorough. You will note that Mr. Hirschler has made eleven Recommendations for our compliance. We are advising our Country Director - Mr. Dudley Conneely - to act on these Recommendations as soon as possible, with a target of ensuring full compliance on all the Recommendations by June 30, 1994.

As we close these Recommendations, we will provide you and your staff with a status report detailing the actions taken on each of the listed Recommendations.

Once again, thank you and your staff for all assistance rendered to Mr. Hirschler as he completed this assignment, and for your continuing support.

With best regards,

Sincerely,

A handwritten signature in cursive script, appearing to read 'Dan'.

Daniel E. Shaughnessy
Executive Director

Helping people help themselves since 1961.

Copies to:

- 1) Mr. Jonathan Sleeper, Deputy Director, Office of Agriculture & Rural Development, USAID, La Paz, Bolivia, with a copy of the Internal Review Report.
- 2) Mr. Salvatore Pinzino, Food For Development Program Manager, USAID, La Paz, Bolivia, with a copy of the Internal Review Report.
- ✓ 3) Mr. Jaime Correa, FHA/FFP/LAC, A.I.D. Washington, with a copy of the Internal Review Report.
- 4) Mr. Duley Conneely - Country Director, PCI/Bolivia, with a copy of the Internal Review Report.

PN-ABK-575
93475

INTERNAL REVIEW
PUBLIC LAW 480 TITLE II PROGRAM
PROJECT CONCERN INTERNATIONAL/BOLIVIA
(March 1994)

Larry Hirschler
Management Consultant
1702 Sapphire Rd.
Fullerton, California 92631
(714) 993-7735

TABLE OF CONTENTS

	Page
I. INTRODUCTION	1
II. SCOPE OF REVIEW	2
III. SELECTED ACCOMPLISHMENTS	4
IV. OVERALL ASSESSMENTS	5
V. DISCUSSION OF ISSUES	5
1. Reinitiating the Santa Cruz FFW Program	5
2. Sources of Funds for Program Administration	6
3. Selection of Counterparts	7
4. Follow-up of Recommendations	8
5. Accounting Staff and Operating Manual	8
6. Bank Account for Beneficiary Contributions	9
7. Internal Audit	9
8. Implementation of FY94 Projects	10
9. PCI Headquarter and Field Communications	12
10. Policy on USAID Involvement	13
11. Inland Freight Costs	15
Attachment 1 - Internal Review Plan	
Attachment 2 - Management Consultant Resume	

I. INTRODUCTION

In July 1992, USAID/Bolivia (USAID) asked Project Concern International (PCI) to administer an existing Public Law 480 Title II Food for Work (FFW) program in Santa Cruz and Montero, Bolivia. PCI accepted and in November 1992, A.I.D. approved a FY 1993 Title II program consisting of 4,061 metric tons of cornmeal, wheat flour and bulgur valued at \$1,705,799 including transportation costs. The program authorized selling 1,880 metric tons of wheat flour through the private sector to produce the local currency equivalent of \$578,334. This process is called monetization.

The program, previously managed by the Adventist Development and Relief Agency (ADRA), had these principal aims:

- - Provide short-term employment, food security, and adequate nutrition to 5,291 unemployed persons each month (4,402 in Santa Cruz and 889 in Montero).
- - Construct basic infrastructure and provide basic services (water, sanitary sewer, storm sewers, paved streets, parks and community facilities) for the poorest residents of Santa Cruz and Montero.
- - Increase citizen participation in municipal decision-making in the selection, design, construction, supervision, monitoring and evaluation of the public works to be constructed.
- - Train 40 community leaders in the maintenance and sustainability of community development projects.
- - Develop a nutritional surveillance system, carry out social research, and provide training to community leaders, trainees and FFW laborers.

It is PCI's intent to orient these activities towards more public health related activities.

In return for 12 days work per month, each FFW laborer received a ration or payment of 55 kilos of food including wheat flour, cornmeal, bulgur or rice, sugar, vegetable oil and salt. Since the cities where PCI implements FFW programs are relatively high cost areas, USAID approved the distribution of double rations (110 kilos) for each worker.

Under the Title II program, PCI is responsible for booking shipments of food commodities to Bolivia, arranging for inland transportation with all costs paid by A.I.D., warehousing, participating in the selection and approval of work projects, distributing the food to FFW laborers, and reporting on commodity use and control each quarter. Additionally, PCI is responsible for developing plans and projects with city officials for constructing infrastructure including supervision, monitoring and evaluation of construction.

PCI is also responsible for a variety of functions relating to the monetization of Title II commodities. However, under USAID's arrangements in Bolivia, PCI is obliged to turn over these functions on a fee basis to an organization called Program Monetization (PM). USAID and the other cooperating sponsors (ADRA, CARITAS and Food for the Hungry International) created PM in 1989. USAID has a veto vote on PM activities. Services provided by PM include:

- - selling food commodities for monetization,
- - buying local food to compliment the food ration,
- - managing monetization funds before transferring them to cooperating sponsors,
- - assuring that cooperating sponsors do not exceed approved budgets,
- - monitoring every expenditure by cooperating sponsors to assure compliance with allowable costs under OMB Circular No. A-122,
- - approving the purchase of materials for selected construction projects and inspecting selected projects, and
- - inspecting cooperating sponsor warehouses (this function was added in January 1994).

PCI's start-up costs for the first three months were funded by a grant from USAID. Administrative and operating costs were funded by monetization proceeds and beneficiary contributions from FFW laborers. These contributions, authorized by A.I.D., amounted to about 25 cents for each ration. The Mayor's office of Santa Cruz contributed an additional \$1.25 per ration.

In October 1993, A.I.D. approved a FY94 Title II food program totaling 5,520 metric tons of wheat flour, cornmeal, bulgur wheat and lentils valued at \$2,385,040. Included were 2,067 metric tons of wheat flour for monetization. To reduce the risk of workers selling their rations on the local market, USAID approved for FY94 a reduced ration in return for less hours of work. The FY94 program authorized new activities including FFW hot food and daycare centers, school feeding and general relief.

II. SCOPE OF REVIEW

USAID requires that Title II cooperating sponsors, at intervals mutually agreed upon in writing, perform or arrange to have performed, comprehensive internal reviews of the Title II program under its jurisdiction. Cooperating sponsors (PCI is a cooperating sponsor) are encouraged to use personnel not directly assigned to a Title II program for conducting the reviews.

The overall objective of this review was to ascertain the effectiveness of management systems and procedures to meet the terms and conditions of Regulation 11 and the program agreements.

As requested by PCI headquarters, the scope included an assessment of PCI management systems to effectively plan, implement and review the Title II FFW program when the USAID suspension in the city of Santa Cruz is lifted.

The timing and internal review plan (see Attachment 1) was coordinated with USAID. Attachment 2 gives a brief resume of the internal reviewer. The review was conducted during February and March 1994 in Bolivia and at PCI headquarters in San Diego, California. This report is submitted by the internal reviewer to PCI Headquarters for distribution to USAID La Paz and to A.I.D./Washington.

Visits were made to PCI Headquarters, PCI's Offices in La Paz and Santa Cruz, Bolivia, USAID in La Paz, warehouses, offices of counterpart organizations, selected FFW projects and food distributions to FFW laborers.

As suggested by A.I.D. Handbook 9, the review assessed: PCI facilities and staff in San Diego and Bolivia; agreements between PCI and counterpart agencies; prompt duty free entry of food into Bolivia; right of PCI and USAID representatives to examine records of operations, inspect foods in storage and observe food operations; and PCI authority to travel within Bolivia and make programmatic decisions.

The review evaluated the systems and information used by PCI to ensure that sales of Title II commodities conform with A.I.D. requirements in the Monetization Field Manual and Regulation 11. The review also assessed procedures used to determine whether the expenditure of monetization proceeds and recipient contributions during 1993 complied with Regulation 11 and OMB Circular A-122 "Cost Principals for Nonprofit Organizations".

The review assessed the eligibility of recipients; guidelines and requirements given to groups soliciting food; procedures used for approving new projects or terminating others; eligibility requirements including payment of nominal fees; computation of food requirements, comparison of AER rations with warehouse dispatch orders, and rations used in practice at selected specific projects; and accounting for differences or losses of food. The review also evaluated the adequacy of physical facilities at PCI warehouses.

The review evaluated systems of control and information on food shipments, to and in Bolivia, port clearance, survey reports, warehouse controls, claims for losses, disposal of damaged commodities, updated food requirements, dispatch orders, end-use checks, use of beneficiary contributions, reports to A.I.D., and compliance with approved program limits.

Additionally the review evaluated the monitoring tools available to PCI over the implementation of approved projects, including the timeliness and adequacy of counterpart reports on expenditures, program results and obstacles encountered. The review also assessed the adequacy of management's system to measure and report on program effectiveness.

Due to time constraints, the review did not include visits to the port at Matarani, Peru nor the PCI warehouse in La Paz used for storing commodities for monetization. In addition, the review did not make a detailed analysis of participant contribution expenditures because the internal auditor was in the process of performing that review. Instead the review verified that the internal auditor was using an acceptable method for reviewing the expenditure of participant contributions.

From an overall point of view, the review observed the management capability relating to the Bolivia program both in the San Diego and Bolivia offices of PCI.

III. SELECTED ACCOMPLISHMENTS

The PCI Title II program resulted in a number of achievements in Santa Cruz during 1993 including street repairs, cleaning and openings of drainage canals, construction of sports fields, clean-up of green areas, maintenance of plazas and parks, planting of trees, garbage collection and school refurbishing. FFW laborers also renovated a cultural center, a market and a medical post and constructed an industrial oven, four canal bridges, school rest rooms and 14 homes.

PCI also established a monitoring system to provide socio-economic and nutritional information on about 2,700 FFW laborers and their families. Preliminary data provided by PCI shows a decrease from 45 percent to 32 percent in the number of malnourished children after three months in the program. In addition to food, the laborers and their families received basic medical care, vitamin A supplementation, antiparasitic treatment for children under five years of age and iron supplementation for women. The nutritional project also conducted educational events for community leaders, trainees and FFW laborers.

During the year, PCI strengthened its staff and facilities. Building on the recognized food aid expertise of the PCI Executive Director, an Institutional Support Grant was obtained from A.I.D. to strengthen management capacity. With these funds, Headquarters hired an expert Title II Food Aid Manager to monitor and analyze the Bolivia program to ensure compliance with terms and conditions of the program agreement and Title II regulations. The Food Aid Manager has prepared numerous high quality materials to help program implementation such as guidance for performing end-use inspections and a PCI Title II Handbook.

Headquarters has scheduled training for Headquarters and Country staff in 1994 to help transfer this expertise to the Bolivian program. In addition, Headquarters was in the process of analyzing its policy on monitoring and accounting for commodity resources, monetization funds and participant contributions. These analyses will result in further strengthening control systems.

In addition, USAID's December 1993 inspection of the Santa Cruz Office concluded that PCI had established better controls over the distribution of food. To discourage resale of rations by workers, PCI developed an effective system for repackaging food in smaller containers for distribution to individual FFW workers.

PCI management believes that the continued growth and success of the Title II program in Bolivia carries with it a need for strengthened management and control activities. Accordingly, PCI is planning on adding staff resources where necessary. The relationship between the Headquarters and Bolivia offices of PCI is excellent and helped facilitate program implementation.

IV. OVERALL ASSESSMENT

Due to the suspension of the FFW program in Santa Cruz, the reviewer was unable to observe PCI's program implementation at full capacity during visits to Bolivia in February 1994. The reviewer, however, observed FY94 program implementation in Montero and Mineros and at the one Santa Cruz FFW project which is not suspended.

Based on this observation and an assessment of PCI systems and controls, the reviewer concludes that PCI management capability, policy and program guidelines, systems and procedures are effective in meeting the terms and conditions of Regulation 11 and the program agreements. This conclusion is based on the assumption that PCI (a) hires additional levels of staff when the Santa Cruz suspension is lifted and (b) completes the analyses currently programmed for the internal auditor including corrective action where indicated, and (c) takes actions recommended in the following sections. PCI officials agreed with the recommendations in this report and is preparing a time-frame for resolving them.

V. DISCUSSION OF ISSUES

1. Reinitiating the Santa Cruz FFW Program

In June 1993, PCI discovered an apparent diversion of about 80 metric tons of food valued at an estimated \$30,000 from its warehouse in Santa Cruz. In accordance with Regulation 11, PCI reported the problem to the A.I.D. Regional Inspector General through the USAID office in La Paz. USAID then arranged for a local audit firm to review PCI procedures.

Nonetheless, USAID suspended the FY94 FFW program in Santa Cruz effective October 1, 1993. The suspension did not apply to FFW programs in two nearby cities of Montero and Mineros nor to school feeding and humanitarian assistance programs in Santa Cruz, Montero and Mineros. Additionally, USAID authorized the distribution of FY93 FFW rations in Santa Cruz for work performed prior to the suspension.

Prior to PCI's involvement, the FFW program in Santa Cruz was abused by staff of the Mayor's office. While this abuse was known to USAID and PCI staff, the number of FY93 PCI staff approved by USAID was insufficient to effectively monitor food distribution. FFW projects were executed but, due to the limited number of PCI staff, many did not have approved plans and were not frequently inspected with the result that food distributions to laborers were not verified.

In January 1994, USAID agreed to lift the suspension when PCI and the Santa Cruz Mayor's office provide letters outlining improved internal controls. USAID officials informed the reviewer that they intend to ask the Regional Inspector General to close the case.

On March 2, 1994, USAID officials informed the internal reviewer that PCI has satisfactorily met this requirement. Thus, the program can be reinitiated when the Mayor's office provides its letter on program controls. To facilitate the letter, USAID suggested that PCI and USAID meet with the Mayor's office. Since USAID prefers that PCI has exclusive control of food distribution, the Mayor's office letter will only need to address controls over the technical aspects of FFW projects.

PCI must prioritize reinitiating the FFW program in Santa Cruz. The program provides needed revenue to PCI in the form of participant contributions. Additionally, further delays could result in excessive inventories of food in PCI warehouses which could lead to spoilage.

After the Santa Cruz FFW program is reinitiated, PCI should have a plan for reviewing the implementation of its control systems. The PCI systems have not been tested under full program implementation and PCI should be prepared to assure that its revised procedures and controls are properly implemented. The first assessment should be made within one month after the suspension is lifted to be followed by frequent visits.

Recommendation No. 1: PCI should (a) prioritize the reinitiation of FFW in Santa Cruz by working closely with USAID and the Santa Cruz Mayor's office and (b) prepare a schedule for assessing the implementation of PCI control systems.

2. Sources of Funds for Program Administration

PCI believes that its FY93 FFW program in Santa Cruz was over dimensioned with too many projects and too little personnel to control and supervise the advance of these projects. Accordingly, PCI is committed to a much higher quality program with stricter controls.

When the suspension is lifted, PCI plans on hiring additional staff needed to monitor the FY94 program. In doing so, PCI should consider all sources of funding to ensure a tightly controlled high quality low risk program. PCI should review all its budgets including FY94 monetization and beneficiary contributions and the Section 202(e) Agricultural Trade and Development Act support grant to determine needed adjustments to fund adequate levels of support staff.

Indirect Costs - PCI has not taken advantage nor has USAID suggested or encouraged the application of Government provisions allowing the use of monetization and other income to help pay for indirect costs. Regulation 11 permits the use of monetization proceeds and program income to pay indirect costs of the cooperating sponsor's Headquarters, Country and Regional offices that are allocable to the monetization program at the indirect cost rate approved by A.I.D. for the cooperating sponsor.

In the event that monetization and other program funds for FY94 cannot be spent for budgeted costs, these funds can be claimed for payment of indirect costs as authorized in Regulation 11.

Beneficiary Contributions - During FY93, FFW laborers contributed about 75 cents for each food ration they received. Beginning in FY94, the Mayor's office will contribute the 75 cents instead of the laborers. PCI should consider continuing to collect beneficiary contribution from laborers in order to increase administrative funds for program implementation and monitoring. Potential revenue from beneficiary contributions at the 75 cent rate approaches \$50,000 for FY94.

Funds Set-Aside for Evaluation - Under a January 1994 A.I.D. Section 202(e) grant, \$5,000 is set-aside for evaluation. These funds must be used by September 1994. Considering that the majority of the PCI program is currently under suspension, evaluation may not be the most effective use of these funds. PCI should consider reprogramming the evaluation funds to provide more program monitoring.

Funds for the Nutritional Program - PCI should consider switching some staff programmed for nutritional activities to management and monitoring of the food program. The review questions whether PCI needs a doctor to administer programs such as hot food for laborers, daycare centers, and school and other child feeding programs. PCI, for example, implemented a daycare center in Montero in February 1994 without the benefit of a PCI doctor.

PCI should also carefully consider the feasibility of measuring nutritional impact on children who may only receive services for short periods of time. Staff resources used on nutritional activities may be more effectively used to upgrade the quality of FFW projects and to control food and financial resources.

Recommendation No. 2: To strengthen management and reduce program risks, PCI should take advantage of indirect cost rates allowed under Regulation 11 and consider other available program funding changes in both the 1994 and 1995 MYOPs.

3. Selection of Counterparts

PCI has been successful working with smaller communities to implement the FFW program. Since these programs appear relatively well controlled and effective, PCI officials are planning to expand FFW in smaller communities to take advantage of their enthusiasm and cooperation and the successes there.

Assuming the program will be continued in the city of Santa Cruz, PCI should also consider working with other Santa Cruz counterparts in addition to the Mayor's office. Since there have been problems with program abuse in the Santa Cruz Mayor's office, other potential counterpart organizations exist which could be considered. For example, local boards (Juntas Vecinales) exist in city districts which might serve as effective counterpart agencies.

Working with local boards might also facilitate the achievement of FY94 program goals such as:

- - increasing participation of the residents of targeted cities and towns in the decision-making process as to what infrastructure will be constructed and which services will be provided, and
- - working directly with local authorities in the training of indigenous community leaders to maintain and continue development projects in the community.

USAID officials believed that the Mayor of Santa Cruz might be willing to discuss managing the FFW program through local groups while continuing to provide engineering services where needed.

Recommendation No. 3: PCI should consider the option of programming more FFW resources with smaller cities or with alternate private counterpart agencies.

4. Follow-up of Recommendations

PCI can ensure timely follow-up of recommendations by establishing a system to inform PCI Headquarters and USAID of actions planned and/or taken. Currently three reports contain recommendations that need to be in a follow-up system:

- - The December 20, 1993 report of USAID's inspection of PCI beneficiary contributions, food inventories and warehouse facilities. PCI's internal auditor is making a series of reviews in response to the report.
- - The Delta draft audit report. PCI had not prepared a detailed response because USAID sent the draft report back to Delta for revision. A new draft was received on February 28th, 1994 but USAID had not yet determined its acceptability.
- - The December 1993 evaluation report of the nutritional program. USAID informed PCI on January 24, 1994 that the nutritional project component will only be reinitiated when the observations of the evaluation are overcome and when the FFW program is reestablished.

Recommendation No. 4: PCI should establish a recommendation follow-up system to ensure that prompt actions are taken and that PCI Headquarters and USAID are informed about actions planned and/or taken.

5. Accounting Staff and Operating Manual

During the review, there were no accounting staff at the PCI Santa Cruz Office. The internal auditor was doing the accounting which delayed internal audit work and which compromised the independence of the auditor's position. PCI was recruiting for the vacant positions of accountant and assistant accountant.

PCI had not developed an operating manual for the accounting department. Accounting procedures exist in various letters, instructions, regulations and documents but are not consolidated in a manual to ensure continuity of operations and as a check list.

The manual should include relevant provisions of A.I.D. and OMB regulations, USAID Operational Letters, procedures for voucher review and approval, cash control, bank accounts, deposits, reconciling beneficiary contributions with food distribution and reporting responsibilities. The internal auditor should also provide input into the development of the operating manual.

Recommendation No. 5: PCI should (a) prioritize recruitment of top quality accounting staff and (b) develop an accounting department operating manual to be completed by June 30, 1994.

6. Bank Account for Beneficiary Contributions

USAID's January 1994 Operational Letter Number 5 requires that each voluntary agency close prior years bank accounts for beneficiary contributions and open new FY94 accounts. As of March 1, 1994, PCI had not complied with this requirement.

Recommendation No. 6: Within 30 days of this report, PCI should open a new bank account for beneficiary contributions in accordance with USAID Operational Letter Number 5.

7. Internal Audit

Internal audit is a very important part of PCI's control system in Bolivia. Currently, PCI's auditor's performance is evaluated by the Santa Cruz Director while audit assignments are given to the auditor by the Country Director and the Santa Cruz Director. To maximize the benefits of internal audit, the auditor needs organizational independence from the Santa Cruz Office. This would be accomplished by having the auditor report directly to the Country Director. In this way, the Country Director would also have direct feedback with which to monitor the program.

In addition to organizational independence, the Country Director should establish reasonable time-frames for completing assigned tasks. These tasks will also provide a format for strengthening internal controls over financial and inventory resources. The time-frames should consider that the auditor has been assigned accounting work in addition to auditing duties. Tasks assigned to the auditor in February 1994 include:

- - Assure that the end of year balances include adjustments based on observations of the USAID December 1993 inspection.
- - Analyze commodity accounting and prepare revised reports on inventory and losses for FY93.

- - Prepare claims for commodity losses in FY93.
- - Reconcile differences between beneficiary contributions and distributions of food to FFW laborers during FY93.
- - Analyze advances of money and make appropriate adjustments for FY93.
- - Analyze FY93 expenses and make appropriate explanations where needed and check for adequacy of documentation.
- - Make an inventory of non-expendable property.
- - Prepare a six month report on expenses and projects for FY94 as of March 1994.

These tasks, many of which are being done to answer observations of the December 20, 1993 USAID inspection, are in addition to the auditor's regular audit tasks.

Recommendation No. 7: PCI should (a) determine that the internal auditor reports directly to the Country Director and (b) ensure that the internal auditor completes assigned tasks by June 30, 1994.

8. Implementation of FY94 Projects

Implementation of new FY94 projects is behind schedule. To improve implementation, PCI needs effective implementation plans, reporting mechanisms and accountability for implementation. Other factors adversely affecting implementation include (a) the lack of local food products, notably milk for school feeding, which had not yet been purchased by the Program Monetization Office, (b) inattention by the Mayor's office to new projects during fall elections, and (c) a lack of funding from participant contributions due to the FFW suspension in Santa Cruz.

School Feeding and General Relief: When this review was concluded during February 1994, PCI had not implemented the school feeding and general relief programs. An implementation plan should provide criteria for implementation time-frames, notifying and selecting eligible institutions, evaluating applications, proper use of food, reporting requirements and monitoring and evaluation.

School Feeding - The FY94 Multi-year operational Plan (MYOP) Update authorizes a school feeding program for 12 schools in Santa Cruz and Montero including 1,000 students in each city.

At the beginning of school on February 28, 1994, PCI was not ready to implement the school feeding program. PCI had not started selecting Santa Cruz schools although it had started selecting schools in Montero. PCI did not have implementation plans but was preparing forms and contracts to administer the program.

General Relief - The FY94 MYOP Update authorizes general relief projects but is unclear as to specific amounts. The Update authorizes 1,000 rations per month in the cities of Santa Cruz, Montero and Mineros for a general relief program in 12 hospitals and orphanages. In another section, the Update discusses feeding undernourished children in daycare centers for 1,500 beneficiaries and 25 institutions in Santa Cruz, Montero and Mineros. The Update also states, without further specification, that the general relief program includes drug rehabilitation centers in Santa Cruz. The Update does not clarify these differences in program scope.

As of February 1994, the only activity implemented under general relief was one distribution of food to a drug rehabilitation center in Santa Cruz.

FFW Hot Food and Daycare Center Pilot Projects: At the end of February 1994, PCI had not established hot food projects and had only established one daycare center.

The FY94 MYOP Update authorizes (a) 15 daycare centers to be established for projects with predominant women labor and 15 on site hot food service projects for FFW laborers. In December, 1993, PCI submitted an operating plan to USAID that reduced the program to 10 daycare centers and 10 on site hot food projects. Of the ten, five are for Santa Cruz where the FFW program is suspended; three in Montero and one each in Mineros and Cotoca. A revised budget provides for feeding 180 workers which, at the rate of 30 workers per hot food project, indicates six hot food programs.

A plan is needed to provide implementation time-frames, criteria for selecting children for daycare, provision for transporting children to and from daycare centers, responsibility for collecting and controlling fees for food service and daycare, and criteria for evaluating the pilot projects.

The plan should also provide for identifying incorrect assumptions that would affect program rational, implementation and evaluation. For example, in contrast to program assumptions, laborers may only work for a period of two weeks thereby minimizing the nutritional impact of food distributions.

Also in contrast to program assumptions, Montero FFW laborers finish work at 1:00 pm instead of returning to work after lunch. In this regard, PCI should coordinate with ADRA who, according to USAID, has implemented 45 kitchens to provide mid-morning hot snacks for laborers who do not work all day.

Recommendation No. 8: By April 30, 1994, PCI should prepare implementation and monitoring plans for school feeding, general relief, FFW daycare and FFW hot food projects.

9. PCI Headquarters and Field Communications

The following areas were identified as potentials to strengthen communications.

Documents Needed - Headquarters and La Paz can strengthen their understanding about documents needed to monitor program implementation. For example, the following documents were not received at Headquarters that would have been useful for monitoring program implementation:

- - Agreements between PCI and the Mayors' offices.
- - The draft audit report on activities of the Program Monetization indicating a number of deficiencies and the need to reduce Program Monetization's involvement.
- - The report on USAID's December 1993 inspection of PCI's Santa Cruz office.
- - The December 1993 evaluation report of PCI's Title II nutrition program.

In addition, these types of documents should be translated to English for use at Headquarters. Translation services can likely be obtained at lower cost in Bolivia. Thus, the PCI La Paz Office should identify a reliable contractor for translation of important documents.

Conversely, Headquarters needs to assure that the field has all needed documentation. For example, neither the La Paz nor Santa Cruz office had a copy of OMB Circular A-122, Cost Principles for Nonprofit Organizations. This Circular is used for budgeting and voucher examination. All program documents related to food aid are available with the La Paz USAID office.

Incorporating Headquarters Expertise - Headquarters also needs to assure that expertise available in Headquarters is incorporated into the Bolivia program. For example, the Headquarters Food Aid Manager has prepared end-use checklists for monitoring food distribution and suggestions and direction for implementing the new school feeding, general relief and FFW hot food programs. These suggestions would be very useful to the Country Director when developing a plan to implement new FY94 projects.

The expertise of the Food Aid Manager can also be useful in helping PCI answer and follow-up on recommendations. For example, the Food Aid Manager prepared a detailed procedure for responding to draft audit reports that can be incorporated into PCI's management system.

Accountability for Timely Reporting - PCI needs to outline expectations and hold managers accountable for timely and effective reporting.

One reporting weakness was that the Santa Cruz Director's monthly activity report for January 1994 had not been received by the end of February and monthly activity reports for October and

November 1993 were not submitted until the end of December 1993. Moreover, the activity report format does not include measurable objectives; therefore, the reports do not measure the timeliness of implementation.

Another reporting weakness included complaints from the La Paz Coordinator and the Santa Cruz Director about late reports and poor response to each others requests for information.

The Country Director needs to define expectations of employees and to hold the employees accountable for performance. The Country Director should also monitor and assess the (a) timeliness of communications between staff at the La Paz and Santa Cruz offices and (b) achievement of specific objectives such as initiating new projects and programs within established time-frames.

To help resolve these and other issues discussed in this report, PCI could consider a staff workshop to define issues and establish expectations and guidelines for performance and accountability.

Recommendation No. 9: PCI should (a) strengthen the flow of information between Headquarters and Bolivia including translation of important documents, (b) assess its organization to strengthen internal coordination and communications, (c) establish specific expectations for employee performance and (d) monitor and assess the timeliness of communications between staff at the La Paz and Santa Cruz Offices.

10. Policy on USAID Involvement

USAID extensively monitored and was otherwise involved in the planning and implementation of PCI's Title II program in Bolivia. For example, USAID:

- - drafted the original MYOP in 1992 and provided significant guidance in subsequent annual MYOP updates.
- - wrote numerous letters and made frequent telephone calls to the PCI offices in La Paz and Santa Cruz.
- - made reviews in May and December of 1993 of receipt and disbursement of beneficiary contributions, inventories and warehouse facilities.
- - performed a joint review with PCI of an allegation of food diversion in July 1993. Subsequently, USAID instructed PCI to hire a private audit firm selected by USAID to evaluate PCI food management practices.
- - instructed all cooperating sponsors to have a comprehensive audit in 1994.

- - created the position of internal auditor for cooperating sponsors and recruited an individual to be the PCI internal auditor.
- - arranged for an evaluation of the PCI's Title II nutritional component in December 1993.
- - made numerous visits to PCI facilities and Title II projects.
- - provided a series of comprehensive instructions (Operational Letters) covering control of food commodities and financial resources.

While USAID has provided significant amounts of help to the administration of PCI's Bolivia Title II program, this degree of involvement may no longer be needed nor appropriate.

PCI and USAID should recall that Title II programs are partnerships. In one instance, USAID refused to consider a January 1994 budget revision until the PCI Country Director obtained the PCI Santa Cruz Director's signature on the revision. This is USAID involvement in PCI internal management and is contrary to the partnership concept.

Moreover, PCI should insist that USAID coordinate with the Country Director when it visits or discusses issues with the Santa Cruz Office. For example, without coordinating with the Country Director, USAID held discussions with the PCI Santa Cruz Director in January 1994 about reducing program levels. Additionally, USAID instructed the PCI internal auditor in February 1994 to analyze participant contributions, also without consultation with the Country Director. While USAID has every right and obligation to be involved in these issues, these visits and discussions should be coordinated with the Country Director.

In certain instances, PCI should follow-up with USAID to request written clarification and documentation of important events. For example, PCI should have followed-up to obtain written clarification from USAID on the exact nature of the 1993 suspension of the Santa Cruz FFW program and what actions were needed for reinstatement. PCI should also have followed-up to obtain USAID's report of its December 20th inspection in Santa Cruz which was apparently inadvertently not sent to PCI. In addition, PCI should endeavor to obtain in writing important information provided by USAID during telephone conversations.

Recently, Title II cooperating sponsors in Bolivia created an Interagency Commission to, among other things, discuss how to better deal with USAID involvement in the execution of cooperating sponsor responsibilities. PCI believes the commission will help put the involvement in perspective.

Recommendation No. 10: The Country Director of PCI/Bolivia should meet with USAID senior management officials and work out a mutually acceptable "working relationship" in order to better coordinate USAID visits, and to obtain important information in writing. Resolutions reached as an outcome of this discussion should be documented in the files.

11. Inland Freight Costs

Title II cargoes for Bolivia are shipped to Peru and then moved to Bolivia. The cost of this inland freight represents a significant portion of the total cost of PCI's Title II program. For FY93, about \$400,000 of the total program approval of \$1.7 million was to pay for inland freight.

Inland freight services are obtained by competitive bidding within Bolivia. USAID, however, does not allow cooperating sponsors to obtain inland freight in conjunction with a "through bill of lading". USAID fears this would result in all Title II food being transported by a single Bolivian company thereby creating a monopoly. USAID also believes that a single company would not have sufficient capacity to transport all Title II food to Bolivia.

To assess whether inland freight is obtained at the lowest possible cost, PCI Headquarters compared current costs with the cost of inland freight available under "through bills of lading". This comparison, while preliminary and containing several assumptions, indicates the potential for substantial savings using the "through bill of lading" approach even though inland freight has been obtained in the past through a competitive bidding process.

The reviewer believes that PCI is obliged to follow-up this preliminary information to determine whether savings can be realized by using a "through bill of lading" approach.

Recommendation No. 11: PCI, in conjunction with other cooperating sponsors and the USAID Mission in La Paz, should determine if inland freight costs can be lowered by using the "through bill of lading" approach.

1993/1994
INTERNAL REVIEW PLAN
P.L. 480 TITLE II PROGRAM

PROJECT CONCERN INTERNATIONAL/BOLIVIA

A. Responsibilities, Timing and Objectives

Responsibilities: PCI Headquarters will arrange for an internal review of the PCI/Bolivia P.L. 480 Title II program. The review will be made by an individual who is sufficiently independent to produce unbiased opinions, conclusions, or judgments in writing. Consultants or other assistance in formulating and reinforcing recommendations may be used.

Timing: PCI/Bolivia will coordinate the timing and scope of the internal review with USAID/Bolivia. The review will take place in Bolivia and at PCI Headquarters in San Diego, California. The internal review report will be submitted to PCI Headquarters; copies of the final report will be provided to USAID/Bolivia and AID/W. Initial timing plans are for February, 1994.

Objectives: The review will ascertain the effectiveness of management systems and procedures to meet the terms and conditions of AID Regulation 11 and the program agreement. The review will represent a complete review of the P.L. 480 Title II program and a systematic method will be established to assure timely and appropriate resolutions of review findings and recommendations.

In addition to steps outlined in this plan, the review will follow up on open recommendations from prior assessments of the Bolivia program.

The review will include visits to PCI Headquarters; PCI/Bolivia; ports; warehouses; offices of counterpart, partnership, distributing, or recipient agencies; and selected project sites.

B. Capability Assessment

1. Central office (appearance, size, location of equipment, type of records maintained, status of files and reports).
2. Size and capability of staff (American and local) and number of field examiners.
3. Scope and quality of previous audits or reviews and action taken on previous recommendations.

4. PCI and PCI/Bolivia agreements and effectiveness of their implementation:
 - a. Agreements between PCI, the Government of Bolivia, recipient and distributing agencies, and others. The review will assess duty free privileges and the Government of Bolivia contributions towards meeting costs of food distribution and project implementation.
 - b. Agreement coverage for the following:
 - (1) Survey of cargo discharge from ships.
 - (2) Prompt duty free entry into Bolivia.
 - (3) Inland transport.
 - (4) Right of PCI and AID Mission representatives to examine records of operations, inspect foods in storage, and observe food utilization operations.
 - (5) PCI authority to travel within the country and make control decisions involving program operations,
 - (6) Payment of food distribution costs.
 - (7) Payment of claims.
 - (8) Implementation of projects undertaken with monetization funds.
5. Make recommendations for improving PCI and PCI/Bolivia capability.

C. Monetization

1. Determine if the sale of Title II commodities conformed with AID rules as outlined in the Monetization Field Manual and Regulation 11.
2. Determine whether monetization fund expenditures (a) conformed with the approved budget, and (b) complied with AID regulation 11 and OMB Circular A-122, "Cost Principles for Nonprofit Organizations."

D. Policy and Program Guidelines and Their Implementation

1. Eligibility of Recipients.

- a. What written guidelines or requirements have been prepared by PCI to provide to groups soliciting food? Are these guidelines known at all levels? Are they consistent with AID policy as described in AID Handbook 9?
 - b. What procedures are to be used for approving new projects or terminating others? Are they applied in practice; if not, why not?
 - c. Verify how eligibility requirements (including payment of nominal fees, etc.) were applied for projects within different program categories.
 - d. Make recommendations for improving eligibility guidelines and their enforcement.
2. Computation of Food Requirements.
- a. How were rations in the AER determined for each program category?
 - b. Compare AER rations with rations applied in warehouse dispatch orders and rations used in practice at selected specific projects. Note and explain any discrepancies, indicating most suitable rations.
 - c. Is information on the number of beneficiaries per project updated before warehouse dispatch orders are given for projects?
 - d. Compare existing stocks at selected project sites and regional warehouses with "normal" distribution rates according to approved rations and number of beneficiaries, and account for any differences or supposed losses.
 - e. Are rations appropriate in comparison with program objectives and project design?
 - f. Make recommendations regarding methods of computing, updating, and controlling food requirements.
3. Evaluate the adequacy of physical facilities and equipment at ports, central and regional warehouses and selected project sites. Make recommendations as appropriate.

4. Assess PCI's planning and implementation of project activities undertaken with monetization funds. Make recommendations regarding the planning and implementation of these activities.

E. Control Documents and Information Systems

1. Review the existing information systems by following the "life-cycle" of a typical PCI Title II food shipment, to and in Bolivia, from the shaping of the program plan, shipment of commodities to Bolivia, port clearance, survey reports and claims for losses, control and use of proceeds from selling containers, sale of the commodities for monetization, use of monetization proceeds, and final reports on food distribution, end-use, and the planning and implementation of development activities.

Note points where the information system failed or was inaccurate, or where decisions were not taken despite adequate information, indicating why and who was responsible.

2. Assess the systems for selling Title II commodities under monetization guidelines. Does PCI maintain adequate information to demonstrate that the sales were conducted in conformance with AID guidelines.
3. Evaluate the systems for controlling and distributing food, including warehouse controls, claims for losses, disposal of damaged commodities, updated food requirements, dispatch orders, end-use checks, use of funds from inscription and container fees, end-use reports provided by beneficiaries and by counterpart offices, reports to AID, and compliance with approved program limits.
4. Evaluate the systems for controlling the selection of projects for funding with monetization funds and the monitoring tools available to PCI over the implementation of approved projects. For example, do implementing counterpart organizations provide timely and informative reports on expenditures, program results, and obstacles encountered?
5. Review the adequacy of management's system to measure and report on program effectiveness.
6. Assess the adequacy of the voucher approval process.
7. Make specific recommendations for improving the design of PCI's information system and for enforcing its application.

F. USAID and Counterpart Relationships

1. Assess levels of understanding and communications.
2. Review overall relationships.

20'

ATTACHMENT 2

**Larry Hirschler
1702 Sapphire Road
Fullerton, California 92631
(714) 993-7735**

PROFESSION: Management Consultant

CAREER SUMMARY: Twenty eight years experience in reviewing and auditing foreign aid, local currency, housing, and health and education programs with GAO, the AID Inspector General and as a private management consultant. Skilled in developing policies and procedures to improve productivity, cost effectiveness and compliance with regulations.

SELECTED ACCOMPLISHMENTS:

- Conducted Internal Reviews of Section 416(b) and Title II food programs in Guatemala and Mexico. The reviews provided program oversight to AID by identifying needed improvements to management systems and procedures to meet the terms and conditions of PVO agreements with the U.S. Government.
- Formulated plans to ensure that foreign governments make timely payments and properly account for foreign currencies.
- Saved \$20 million by revising procedures for centralized management of foreign currencies in Europe.
- Identified accounting errors thereby saving \$14 million in foreign currency and agricultural research funds.
- Helped ensure the sustainability of a \$60 million rural health program in Africa through collection and analysis of information on health care and client fees.

WORK EXPERIENCE:

1990-1993: Management Consultant - U.S., Guatemala and Mexico.

1985-1989: Agency for International Development (Regional offices in Washington D.C. and Senegal) - Audited AID programs in Senegal, Morocco, Tunisia, Ivory Coast, Mauritania, The Gambia, Cameroon, Zaire, Togo and Thailand.

1964-1984: United States General Accounting Office (Regional offices in India, Germany, San Francisco and Los Angeles) - Audited programs of AID, Department of State and DOD in India, Pakistan, Senegal, Ivory Coast, Mali, Mauritania, Germany, Spain, Greece, Belgium, England, Italy, France, and the United States.

EDUCATION: Bachelor of Science, Accounting and Finance, San Jose State University.