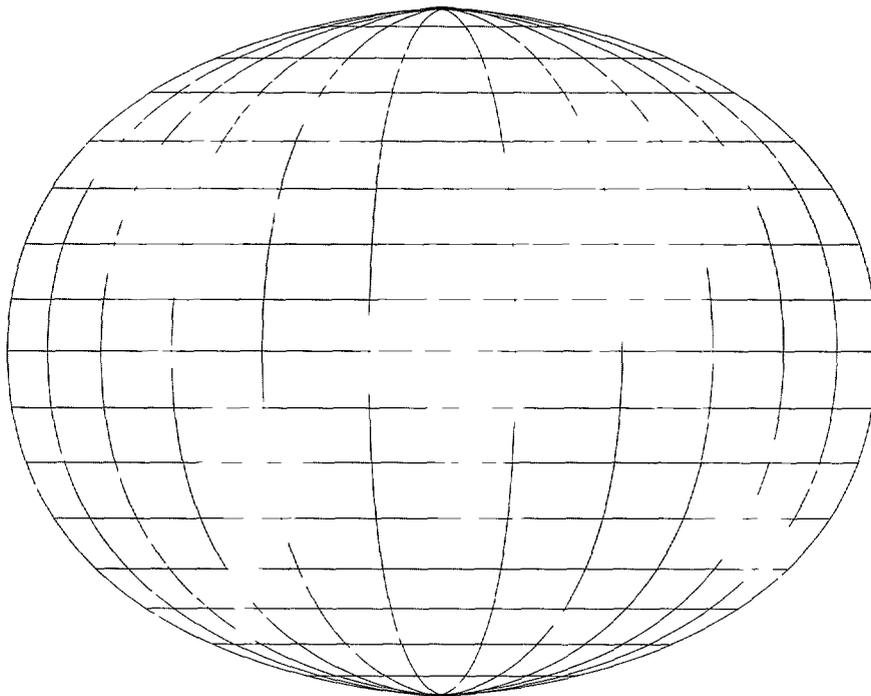


Report of Audit

Audit of USAID/Bolivia's Management of P L. 480 Title II Commodity Losses

Audit Report No 1-511-99-008-P
September 27, 1999



Regional Inspector General
San Salvador

**OFFICE OF INSPECTOR GENERAL
U.S. AGENCY FOR INTERNATIONAL DEVELOPMENT**

PD-ABR-717

**Audit of USAID/Bolivia's Management of
P L. 480 Title II Commodity Losses**

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**Regional Inspector General
San Salvador**



U S AGENCY FOR
INTERNATIONAL
DEVELOPMENT

RIG/San Salvador

September 27, 1999

MEMORANDUM

FOR USAID/ Bolivia Director, Liliana Ayalde
FROM RIG/A/San Salvador, Timothy E Cox *Steven H Butler for*
SUBJECT Audit of USAID/Bolivia's Management of P L 480 Title II
Commodity Losses, Report No 1-511-99-008-P

This memorandum is our report on the subject audit. In finalizing the report, we considered your comments on the draft report. Your comments on the draft report are included in Appendix II.

This report contains two recommendations for your action. Based on the information provided by the Mission, a management decision has been reached on both recommendations. A determination of final action for these recommendations will be made by the Office of Management Planning and Innovation (M/MPI/MIC) when planned corrective actions are completed.

I appreciate the cooperation and courtesy extended to my staff during the audit.

Background

Public Law 480 Title II authorizes USAID to transfer food commodities to alleviate hunger and promote certain development goals in recipient countries. The P L 480 Title II food program supports emergency feeding programs and regular food aid programs implemented through nongovernmental organizations (NGOs), foreign governments, and multilateral institutions, such as the United Nation's World Food Program.

During fiscal years 1997 and 1998, USAID P L 480 Title II food aid in Bolivia was distributed through four NGOs: Food for the Hungry International (FHI), Project Concern International (PCI), the Adventist Development and Relief

Agency (ADRA), and Caritas Boliviana (As is explained in the Scope and Methodology section, Caritas Boliviana was excluded from our audit) According to an unaudited report provided by USAID/Bolivia, food aid and associated transportation costs totaled \$27,486,195 for the three cooperating sponsors reviewed

Since Bolivia is a landlocked country, food commodities shipped from the US were discharged in ports in Peru, at times stored at the ports, and then transported by trucking companies to the warehouses of the cooperating sponsors in Bolivia

Losses result when food commodities are lost, damaged or misused during shipment, storage and distribution Losses could be incurred by ocean carriers, port storage operators, inland carriers, or cooperating sponsors This report classifies these losses as ocean, port, inland, and internal losses, respectively

Audit Objective

The audit was conducted as part of the Office of the Regional Inspector General/San Salvador's fiscal year 1999 audit plan The audit was designed to answer the following two questions

- What were the levels of maritime and inland commodity losses of USAID/Bolivia's P L 480 Title II program?
- Did USAID/Bolivia, together with its cooperating sponsors, manage losses of P L 480 Title II food commodities in accordance with USAID regulations and supplemental guidance?

The audit scope and methodology is presented in Appendix I

Audit Findings

What were the levels of maritime and inland commodity losses of USAID/Bolivia's P L 480 Title II program?

According to available records kept by USAID/Bolivia and the cooperating sponsors, commodity losses (in dollars and kilograms) for fiscal years 1997 and 1998 were as follows

Reported Losses in Dollars					
Cooperating Sponsor	Ocean Losses	Port Losses	Inland Losses	Internal Losses	Total Losses
ADRA	\$34,813	\$9,502	\$2,113	\$12,125	\$52,553
FHI	\$44,728	\$15,231	\$2,446	\$2,538	\$64,943
PCV/Bolivia	\$19,274	\$3,204	\$1,621	\$23,109	\$47,208
Total Losses	\$98,815	\$27,937	\$6,180	\$37,772	\$164,704

Reported Losses in Kilograms					
Cooperating Sponsor	Ocean Losses	Port Losses	Inland Losses	Internal Losses	Total Losses
ADRA	97,904	10,671	5,002	29,413	142,990
EHI	119,305	36,039	5,914	4,601	165,859
PCI/Bolivia	58,768	10,244	3,384	60,184	132,580
Total Losses	275,977	56,954	14,300	94,198	441,429

These losses represent 0.6 percent and 0.7 percent, respectively, of the total dollar value and total weight in metric tons of commodities received by the cooperating sponsors during the audit period. Although the above information was not reliable in all cases, we have used the data to illustrate the magnitude of the matters discussed in the following section.

Did USAID/Bolivia, together with its cooperating sponsors, manage losses of P L 480 Title II food commodities in accordance with USAID regulations and supplemental guidance?

USAID/Bolivia and its cooperating sponsors did not always manage food commodity losses in accordance with USAID regulations and supplemental guidance. Although USAID/Bolivia reviewed commodity loss reports and adjudicated reported losses, it did not have a system to track commodity losses and claims. Although cooperating sponsors pursued loss claims against third parties and generally remitted claim proceeds to USAID/Bolivia, they did not provide their loss reports to USAID in a timely manner, they did not provide complete loss information, and they did not always provide accurate information.

Management Systems for Tracking Losses and Claims Need Improvement

According to USAID Handbook 9, Section 8C(2), mission food aid offices are responsible for reviewing reports of loss, damage, and improper distribution submitted by cooperating sponsors to ensure that the information presented is adequate and to determine whether a claim is justified. Section 211.9(f) of USAID Regulation 11 requires cooperating sponsors to (1) report to USAID or the Diplomatic post any loss, damage, or misuse of commodities with 30 days after the close of the calendar quarter, (2) provide detailed information on losses exceeding \$500 and for losses under \$500 provide, at a minimum, the estimated value of the loss, and the action taken by the sponsor to recover or dispose of the lost or damaged commodities, and (3) collect on claims against third parties and remit collected proceeds to the U.S. government. In September 1997, the Office of Inspector General issued an audit report which concluded that missions and NGOs did not have adequate systems for tracking Title II emergency commodity losses and claims.¹

¹ Audit Report No. 9-000-97-001-P dated September 10, 1997

In response to the audit report, the Bureau for Humanitarian Response, Office of Food for Peace distributed State Telegram No 087197 in May 1998 to missions, posts, and cooperating sponsors. This telegram reminded these organizations of their responsibilities under Regulation 11 and Handbook 9 regarding the management of commodity losses including tracking systems.

USAID/Bolivia Tracking System

USAID/Bolivia did not maintain a tracking system, such as a ledger for tracking the amount of outstanding claims, the third parties involved, and the status of the claims. Instead of establishing a tracking system, USAID/Bolivia simply kept copies of loss reports submitted by the cooperating sponsors, including

- Monthly commodity and recipient status reports. All losses are to be included in the commodity and recipient status reports.
- Forms IN5A, "Report of loss, damage or misuse of commodities." Cooperating sponsors are required to submit a form IN5A for each loss. This form provides the detailed information required by Regulation 11 such as the value of loss, the time and place of the loss, and the action taken to recover or dispose of lost or damaged commodities.
- Condition of Arrival Reports (CARs). CARs, which should be prepared once each food shipment has been distributed, are used to calculate the ocean, port and inland losses incurred for the commodities associated with a particular bill of lading.

However, the information in USAID/Bolivia's files did not provide the mission with complete information because cooperating sponsors frequently submitted loss reports to USAID that were late, incomplete, and inaccurate.

Timeliness of Reporting

While FHI/Bolivia reported losses timely in both fiscal years,² PCI/Bolivia and ADRA/Bolivia were late in reporting losses. Specifically

- PCI/Bolivia did not report timely on ocean, port and inland losses incurred during fiscal years 1997 and 1998. While Section 211.9(f) of USAID Regulation 11 required quarterly reporting, no reports on ocean, port and inland losses in these two fiscal years were filed until December 1998. Ocean, port, and inland losses during these two years totaled \$24,099. (PCI/Bolivia did report timely on internal losses.)

² Reporting was considered timely if some loss information for a particular type of loss (e.g., internal) was reported at least quarterly in accordance with Section 211.9(f) of USAID Regulation 11 via the commodity and recipient status reports, the forms IN5A, or the condition of arrival reports.

-
- ADRA/Bolivia did not report timely on ocean and port losses incurred during fiscal years 1997 and 1998. While the losses should have been reported quarterly, no reports on losses in these two fiscal years were filed until December 1998. Ocean and port losses during these two fiscal years totaled \$38,315 (ADRA/Bolivia did report timely on inland and internal losses.)

Completeness of Reporting

Regulation 11 requires that quarterly loss reports include the estimated value of each loss and the action taken with respect to recovery or disposal. This information is found only in the IN5A form. None of the three cooperating sponsors reported all of the required loss information for both fiscal years 1997 and 1998³.

- FHI/Bolivia did not report complete loss information for the first three quarters of fiscal year 1997 because it did not submit the associated IN5A forms until the end of the fiscal year. (FHI/Bolivia's loss reporting was complete for the last quarter of fiscal year 1997 and for fiscal year 1998, however.)
- PCI/Bolivia did not submit to USAID/Bolivia IN5A forms for any of the ocean, port, and inland losses of \$24,129 incurred in fiscal years 1997 and 1998. Also, no IN5A forms were submitted for internal losses of \$1,333 incurred in fiscal year 1998. Finally, PCI/Bolivia did not report to USAID/Bolivia any loss information on 1,350 metric tons of food it received directly from USAID's Bureau for Humanitarian Response in fiscal year 1997.
- ADRA/Bolivia did not submit IN5A forms for any of the ocean, port, and inland losses of \$40,428 incurred in fiscal years 1997 and 1998. Also, it did not submit IN5A forms for internal losses of \$5,163 incurred in fiscal year 1998. Lastly, ADRA/Bolivia did not report to USAID/Bolivia any loss information on 1,060 metric tons of food it received directly from USAID's Bureau for Humanitarian Response in fiscal year 1997.

Accuracy of Reporting

Finally, reported loss information from one cooperating sponsor – ADRA/Bolivia – was inaccurate. A principal problem was that programming errors caused ADRA/Bolivia's computer system to produce inaccurate CARs. For example, of the 33 CARs submitted for the two fiscal years that reported losses, 29 reported port losses on the line item titled "balance in port" rather than the line item "losses in port." This was not only confusing, but caused the line item "total losses" to be incorrectly calculated. Additionally, four CARs incorrectly reported the amount of commodity losses because of another programming error that occurred whenever commodities associated with a bill of lading were repackaged more than once because the bags had less than the minimum quantity of commodities or were damaged. In another case, a CAR associated with a transfer between warehouses

³ Reporting was considered complete if all the information required by Regulation 11 for each loss was reported quarterly.

was apparently not submitted to USAID/Bolivia causing USAID/Bolivia to significantly miscalculate the associated losses. Other indications of inaccuracies included seven CARs with handwritten changes and six CARs that did not show the results from the repackaging of commodities. Examples of CARs that contained incorrect data included

- A CAR which reported “internal losses” as a negative 31,740 kilograms. However, the actual loss was 110 kilograms.
- A second CAR which reported “internal losses” as a negative 2,096 kilograms. However, the actual loss was 4 kilograms.
- A third CAR which reported no “internal losses.” However, the actual loss was 293 kilograms.

These errors contributed to USAID/Bolivia miscalculating ADRA/Bolivia’s losses. For example, using the CARs, USAID/Bolivia calculated total losses as 85,188 and 36,793 kilos respectively for fiscal years 1997 and 1998. However, ADRA/Bolivia reported losses as 53,825 and 73,427 kilos respectively for the two fiscal years.

* * *

To determine the causes of the different problems identified above, we interviewed officials at each cooperating sponsor and at USAID/Bolivia. The officials we spoke to at ADRA/Bolivia and PCI/Bolivia were new to their positions and could not explain the reasons for any of the problems identified. USAID/Bolivia’s food for peace officer stated that the mission had sent letters to the cooperating sponsors addressing the late and incomplete reporting, but added that the mission may not have been as actively engaged as it should have been. He explained that, in retrospect, one action they might have been able to take was conditioning the approval of additional food shipments on the receipt of quarterly loss information. Regarding its own tracking system, the food for peace officer stated that in August 1998, USAID/Bolivia recognized the need for such a system and began steps to implement one.

Because of the reporting problems, USAID/Bolivia was not receiving accurate, complete and timely information on all commodity losses. Consequently, it was not being kept fully informed on losses incurred by the cooperating sponsors on each commodity shipment which we believe limits, at least partially, its ability to monitor distribution activity and to identify and correct potential problems. It is important that losses be reported to USAID so that the Agency can effectively monitor the distribution process and be able to detect patterns or trends in the loss, damage, or misuse of relief commodities, which may have to be addressed. Thus, it is essential that USAID/Bolivia and its cooperating sponsors have systems to adequately track commodity losses and claims. To this end, we are recommending that USAID/Bolivia provide cooperating sponsors with technical assistance to ensure that

losses are promptly, completely and accurately reported in accordance with Regulation 11. Additionally, USAID/Bolivia should complete implementation of its own system to track commodity losses and claims and systematically review quarterly status reports submitted by cooperating sponsors to ensure that the information is complete and accurate.

Recommendation No 1 We recommend that USAID/Bolivia provide supervision and training to the cooperating sponsors delivering food aid.

Recommendation No 2 We recommend that USAID/Bolivia complete implementation of its own system to track food loss reports and claims for losses filed by cooperating sponsors and systematically review quarterly status reports.

Management Comments and Our Evaluation

In responding to our draft report, USAID/Bolivia concurred with the recommendations, but disagreed with some elements of the report. The complete text of the Mission's comments is found in Appendix II.

USAID/Bolivia disagreed with the statement that its records showed that IN5A forms were not submitted for the internal losses incurred by ADRA/Bolivia and PCI/Bolivia in fiscal year 1998. The Mission stated that the forms were submitted and provided to us. Additionally, the Mission stated that the IN5A forms for the ocean, port and inland losses incurred during fiscal years 1997 and 1998 by the two cooperating sponsors were submitted late, but that these forms were also provided to us once it received them.

However, the Mission's schedules listing all the IN5A forms that had been received by the two cooperating sponsors, and our review of the corresponding folders with copies of the forms did demonstrate that ADRA/Bolivia and PCI/Bolivia had not submitted IN5A forms for ocean, port, and inland losses. These same records also demonstrated that ADRA/Bolivia did not submit any IN5A forms for its fiscal year 1998 internal losses. At some point, the Mission may have received these forms, but they were not part of the documentation provided to us. With regard to PCI/Bolivia's internal losses for fiscal year 1998, the Mission's summary records showed that PCI/Bolivia had not submitted the forms. However, supporting schedules did indicate that IN5A forms were submitted for most, but not all of fiscal year 1998 internal losses. We adjusted our report to reflect this fact.

USAID/Bolivia also did not agree with our comment that we were unable to verify the level of total commodity losses because loss information was not timely, complete, or accurate. The Mission acknowledged that documentation was submitted late, but believed sufficient documentation was eventually provided to us to confirm the level of commodity losses.

Because loss data was not timely, complete, or accurate as required by Regulation 11, determining the level of commodity losses was difficult. We spent considerable time reviewing the various data sources to arrive at the commodity loss numbers presented in this report—information that should have been provided quarterly. Additionally, cooperating sponsors continually submitted revised data on losses. For example, ADRA/Bolivia submitted loss data three times between December 1998 and the end of our fieldwork. Subsequent to our fieldwork, both ADRA/Bolivia and PCI/Bolivia were again submitting revised loss data based on our findings. We did not have the Mission send us this most recent data because it was not reasonable to keep reviewing each new submission. With respect to the overall level of losses, we were making the point that final commodity loss numbers would be different from the numbers presented in this report for the reasons stated above. Provided that the new submissions from ADRA/Bolivia and PCI/Bolivia are accurate and not materially different from the losses shown in this report, we believe that the level of overall commodity losses would be reasonable in relation to the overall level of commodities received by the three cooperating sponsors.

However, the key point is that the Mission's P.L. 480 Title II food program is vulnerable because (1) cooperating sponsors were not submitting complete and accurate commodity loss information on a quarterly basis, and (2) the Mission did not have its own system to track commodity losses and claims. Consequently, the risk exists that significant commodity losses could occur in the future without the Mission being able to quickly identify and correct the causes. We made two recommendations requesting that improvements be made to reduce this risk. The Mission concurred that the management systems for tracking losses and claims needed improvement and outlined its corrective actions. Based on the Mission's responses, a management decision has been reached for both Recommendation No. 1 and Recommendation No. 2.

Scope and Methodology**Scope**

We audited USAID/Bolivia's management of P L 480 Title II commodity losses in accordance with generally accepted government auditing standards. The fieldwork was conducted in February and March 1999 at USAID/Bolivia, FHI/Bolivia, PCI/Bolivia and ADRA/Bolivia. Our audit work was limited to the food commodity losses identified by the three cooperating sponsors and reported to USAID/Bolivia for fiscal years 1997 and 1998. The audit was not intended to determine whether all food losses had been identified and reported to USAID/Bolivia. According to the available records, food losses for the two fiscal years totaled 441,429 kilograms with a value of \$164,704. Unaudited records obtained from USAID/Bolivia showed that 65,196 metric tons of commodities valued at \$27,486,195 (including transportation costs) were shipped to the three cooperating sponsors reviewed during the two fiscal years covered by the audit.

Caritas Boliviana participated in the P L 480 Title II food program during the period covered by our audit. However, USAID formally terminated its participation in January 1998. At the time of our fieldwork, USAID/Bolivia was identifying the food commodity losses that Caritas Boliviana had incurred over a several-year period that included fiscal years 1997 and 1998. Since USAID/Bolivia was addressing the issues involved in the termination of Caritas Boliviana, including food commodity losses, we excluded this former cooperating sponsor from our audit scope.

Since ocean claims were pursued in the United States (by ADRA's home office or by the U S Department of Agriculture, in the cases of FHI and PCI) we did not review collections and remittances for ocean losses.

We did not visit the cooperating sponsors' warehouses to review their processes regarding the receipt and distribution of commodities nor did we review the documentation supporting distribution of the commodities from the warehouses to recipients.

Methodology

To answer the audit objectives, we interviewed officials from USAID/Bolivia's Food Security Coordinating Unit (FSCU) and officials from the cooperating sponsors to gain an understanding of their systems for recording, reporting and evaluating food commodity losses. We reviewed FSCU files regarding its receipt, review and adjudication of food commodity losses reported by the cooperating sponsors.

At the central offices of the cooperating sponsors, we reviewed reports of commodity losses to determine whether they were complete, timely, and supported.

by shipping and receiving records. For maritime, port, and inland losses, we traced the summary loss information to the CARs. We then selected a judgmental sample of losses and traced the loss information to the shipping and receiving records documenting the transit of the commodities from arrival in port to delivery at the warehouses of cooperating sponsors. For internal losses, we selected a judgmental sample of summary loss information and traced the information to the commodity and recipient status reports and/or INSA forms. In total, the audit sampled 63 percent (\$40,704) of the losses reported by FHI/Bolivia, 79 percent (\$37,311) of the losses reported by PCI/Bolivia, and 62 percent (\$32,596) of the losses reported by ADRA/Bolivia. We also determined whether the cooperating sponsors were pursuing claims against third parties for all losses over \$500 and whether collections on losses were remitted to USAID/Bolivia.

**Management
Comments**

 UNITED STATES GOVERNMENT
memorandum

FS-N-278/99

DATE: September 14, 1999

REPLY TO
ATTN OF: Audon Trujillo, Jr, RCO *AT*

SUBJECT: Audit of USAID /Bolivia's Management of P L 480 Title II Commodity Losses
Draft Audit Report No 1-511-99-00X-P

TO: Timothy E Cox, RIG/A/San Salvador

Through: Lawrency Rubey, FS *LR*

In reply to your Memorandum dated August 16, 1999 we provide the following comments to Rig's Audit of USAID/Bolivia Management of P L 480 Title II Commodity Losses

What were the levels of maritime and inland commodity losses of USAID/Bolivia s P L 480 Title II Programs?

The RIG's report states that the auditors were unable to verify the level of total commodity losses incurred by all three Title II Cooperating Sponsors (CSs) during fiscal years 1997 and 1998 since the CSs did not provide USAID/Bolivia with commodity losses information that was timely complete and accurate. However, the Mission did have available records permitting determination of internal losses incurred by each CS and documents existed in files that should have permitted determination of maritime and port losses.

In the case of inland transportation losses, we have records that show that the CSs annually reconcile their information with the transportation companies to determine losses incurred during the transport of Title II commodities to the CSs warehouses. Although the information was sent late to the Mission, the information was complete and accurate and copies were provided to the auditors.

Although the CSs were late in sending commodity loss information to the Mission, the documentation was either provided in person to the auditors or faxed and sent to them for their analysis. We feel the auditors had sufficient information to confirm or reject the level of losses determined by USAID/Bolivia.

The Mission does not agree with the statement presented by the auditors on page 5 fourth paragraph, regarding that "USAID/Bolivia records also showed that neither PCI/Bolivia nor ADRA/Bolivia submitted IN5A forms for any of their respective internal losses incurred in fiscal year 1998 " USAID/Bolivia did have required forms in files and these forms were provided to the auditors The Food Security Unit agrees that neither PCI/Bolivia nor ADRA/Bolivia presented IN5A forms for maritime, port and inland losses on time However, once they presented the forms, the Food Security Unit provided the information to the auditors for their analysis

Furthermore, Mission figures shows the total value of Title II commodities for FYs 1997 and 1998 is \$27,486,195 (includes transportation costs), equivalent to 65 196 Metric Tons The levels of cumulative commodity losses identified and reported by the Mission for these fiscal years was 441,429 kilograms representing a loss of only 0 68% of the total metric tons delivered to Bolivia In terms of US dollars is equal to \$164,704 We believe that the audit report should use such percentage figures in addition to raw numbers

Did USAID/Bolivia, together with its cooperating sponsors manage losses of P L 480 Title II food commodities in accordance with USAID regulations and supplemental guidance?

USAID/Bolivia does not disagree with this observation However, the Mission did not receive the RIG's Audit Report No 9-000-97 001-P dated September 10, 1997, which concluded that missions and PVOs did not have adequate systems for tracking Title II commodity losses and claims

Furthermore, USAID/Bolivia did not receive State Cable No 087197 dated May 1998, reminding missions and CSs of their responsibilities under Regulation 11 regarding the management of commodity losses including need for tracking systems

USAID/Bolivia s Actions Taken in Response to Auditor s Report

Recommendation No 1 1

Provide supervision and training to the Cooperating Sponsors delivering food aid to ensure that they report all commodity losses timely completely and accurately in quarterly status as required by USAID Regulation 11 Section 211 9

- 1 USAID/Bolivia is planning a training session with the CSs for September, 1999 The main objective of this training is to insure the CSs to have a better understanding of the Regulation 11 of Handbook 9 We will emphasize in the importance of having control systems in place to ensure that all information to be submitted to the Mission is in accordance with Regulation 11

Recommendation No 1 2

Complete implementation of its own system to track food loss reports and claims for losses filed by Cooperating Sponsors and systematically review quarterly status reports submitted by CSs to ensure that the information is complete and accurate

2 As of August, 1998 the Food Security Unit had already implemented a tracking system in order to have a control for all losses (maritime, port, inland transportation and internal) filed by the CSs This tracking system benefited from improvements suggested by the auditors Tracking system will be compared with the quarterly CSR/RSR reports as well as with their CAR to reconcile losses A copy of the tracking system documentation will be forwarded to the RIG for their comments and consideration

In addition, USAID/Bolivia has taken the following actions

3 The Food Security Unit has sent letters to all Title II Cooperating Sponsors reminding them of their responsibility for reporting in a timely manner all documentation required by Regulation 11

4 FSU is creating a common format among all Title II CSs for reporting Title II commodity management reports, from Bill of Landing to final distributions (CSR/RSR)

5 FSU will hold quarterly meetings with all Title II PVOs to reconcile all losses Call forwards will be predicated on existence of up-to-date loss information

FS VHM/nat

Clearance
FMO Brmufoz (in draft) date 09/14/99
FMO Jfunkey (in draft) date 09/14/99

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