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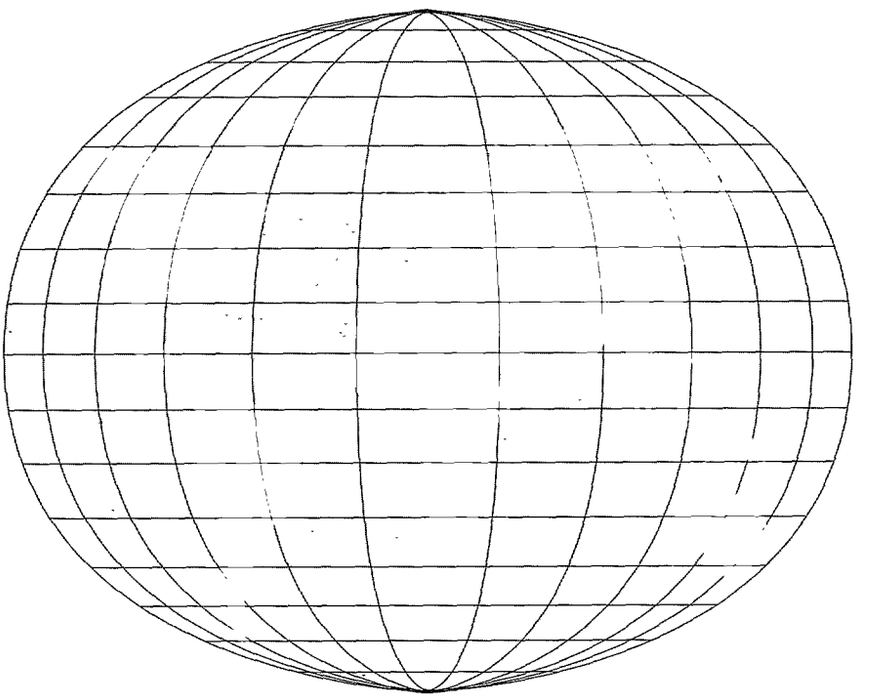
Report of Audit

Audit of the Follow Up on Recommendations from Audit Report No. 9-527-96-007 on USAID/Peru's Management of Non-Emergency Title II Food Aid Programs

Audit Report No. 1-527-00-003-P
May 5, 2000



Regional Inspector General
San Salvador

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

PD-ABS-275

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U.S. AGENCY FOR
INTERNATIONAL
DEVELOPMENT

RIG/San Salvador

May 5, 2000

MEMORANDUM

FOR: USAID/ Peru Director, Thomas L. Geiger

FROM: Acting RIG/A/San Salvador, Steven H. Bernstein

SUBJECT: Audit of the Follow Up on Recommendations from Audit Report No. 9-527-96-007 of USAID/Peru's Management of Non-Emergency Title II Food Aid Programs (Report No. 1-527-00-003-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 three recommendations for your action. Based on the information provided by the Mission, management decisions have been reached on these 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

Half of Peru's 25 million people live in poverty and 15 percent live in extreme poverty. In this country of the size of Alaska, USAID/Peru has focused its approximate $50 million Title II food program in the rural highland and jungle areas where the levels of extreme poverty are the highest. In fiscal year 1999, the USAID/Peru Title II food program distributed, through four cooperating sponsors, $10 million of food commodities to 6,226 communities over the entire range of the country.

In September 1996, the USAID Office of Inspector General issued an audit report that reviewed USAID/Peru's Title II food aid program. The audit report included 41 recommendations, all having final actions subsequently completed by the Mission, including the following seven recommendations that are the basis of this audit report:

Recommendation No. 3.1: We recommend that USAID/Peru establish a plan on the minimum cycle of Mission supervisory visit coverage of the functional areas within the cooperating sponsors' headquarters and all of the cooperating sponsors' field offices. This plan should specify the areas to be covered during such visits and require documentation of the proper functioning of the sponsors' systems for controlling commodities, monetization funds and program income, and for managing for results.

Recommendation No. 3.2: We recommend that USAID/Peru monitor and assess the adequacy of the field supervisions by the cooperating sponsors' headquarters. As part of this monitoring, the Mission should routinely obtain copies and review the cooperating sponsors' trip reports and evaluations, and documentation of follow up done by the cooperating sponsors to assure noted problem areas have been corrected.

Recommendation No. 7.1: We recommend that USAID/Peru establish a joint cooperating sponsor committee, with Mission representation, to share information on the rates the cooperating sponsors have been able to negotiate with their transport agents to move Title II commodities, and to coordinate efforts to negotiate for the best rates.

Recommendation No. 7.2: We recommend that USAID/Peru require Caritas to establish and implement a transparent system for procuring transport services with Title II monetization funds. This system should include procedures for: a competitive bidding system based on price quotes from a reasonable number of firms; appropriate consideration and weight given to qualifications and experience of firms; an independent, committee-based proposal review process; and a contract file system which documents selection decisions.

Recommendation No. 11.1: We recommend that USAID/Peru finalize its work with the cooperating sponsors to implement management information systems that will include targets for all the intermediate result indicators to be tracked by the Mission, and will report reliable information on the progress toward the targets.

Recommendation No. 11.4: We recommend that USAID/Peru ensure that the headquarters of each cooperating sponsor establishes procedures to check the reliability and timeliness of the data reported by their regional units and host country counterparts.

Recommendation No. 11.6: We recommend that USAID/Peru, based on a risk assessment and resource constraints, develop a system that the Mission will follow for periodically verifying the results information reported by the cooperating sponsors.

Audit Objective

The purpose of this audit is to review continuing Mission actions that justified the closure of these seven recommendations that are essential to (1) Mission Title II food distribution controls and (2) Mission Title II results reporting.

Specifically, this audit is intended to answer the following audit objective:

> Has USAID/Peru continued to take effective corrective actions to justify the closure of Recommendation Nos. 3.1, 3.2, 7.1, 7.2, 11.1, 11.4, and 11.6 of Audit Report No. 9-527-96-007, entitled "Audit of USAID/Peru's Management of Non-Emergency Title II Food Aid Programs," issued by IG/A/PA on September 20, 1996?

Appendix I describes the audit's scope and methodology.

Audit Findings

Has USAID/Peru continued to take effective corrective actions to justify the closure of Recommendation Nos. 3.1, 3.2, 7.1, 7.2, 11.1, 11.4, and 11.6 of Audit Report No. 9-527-96-007, entitled "Audit of USAID/Peru's Management of Non-Emergency Title II Food Aid Programs," issued by IG/A/PA on September 20, 1996?

For four recommendations, the Mission has continued to take effective corrective actions that justify the closure of these recommendations dealing with program monitoring and supervision, transport logistics, and cooperating sponsor information systems. However, for three recommendations, the Mission still has to take effective corrective actions that would justify their closure. These recommendations require the Mission to: (1) establish a plan on the minimum cycle of supervisory visit coverage by its own staff, (2) ensure that the cooperating sponsors have effective procedures to check the reliability of reported results, and (3) verify results information reported by the cooperating sponsors.

Mission Actions Justify the Closure of Four Recommendations

For Recommendation No. 3.2, cooperating sponsor field supervision encompasses numerous and varied activities, each cooperating sponsor having unique monitoring systems. Our survey of the design of food

distribution controls and monitoring systems revealed no apparent weaknesses. The recommendation stated that the Mission should routinely review the cooperating sponsors' trip reports and evaluations as well as follow up documentation. Given the vast scope of the Title II program and associated work requirements of the Mission's Title II staff, this is not practical. Nonetheless, USAID/Peru staff were cognizant of the cooperating sponsors' monitoring systems and their adequacy. In addition, our review of cooperating sponsor monitoring systems at two headquarters offices—Adventist Development and Relief Agency (ADRA) and Caritas—as well as our field visits demonstrated that the cooperating sponsors had adequate monitoring systems.

For Recommendation No. 7.1, during fiscal year 1999, the ongoing cooperating sponsors' transport committee shared (through a Mission memorandum) detailed information on existing transport rates for various routes with each of the cooperating sponsors.

For Recommendation No. 7.2, Caritas has implemented transparent procedures for procuring Title II transport services. In November 1996, Caritas designated an official transport committee and developed procedures for the selection and evaluation of transport companies and their rates. Caritas maintained documentation of summaries of the committee meetings. In addition, Caritas maintained documentation of the most recent solicitation and evaluation of transport during fiscal year 1999. This included newspaper advertisements, list of companies responding to the advertisements, files of the 17 completed applications with supplementary documentation from each transport company, analysis of the qualifications of the transport companies, opening of bids, comparison analysis of bids for different routes, and decisions.

For Recommendation No. 11.1, each of the cooperating sponsors has annual monitoring and evaluation plans. The fiscal year 1999 plans have sections that describe their management information reporting systems for results data which is reported against common performance indicators. In addition, each cooperating sponsor submits to the Mission an annual results report for reporting against a common set of indicators. These performance indicators include targets to measure progress.

Mission Corrective Actions Are Needed for Three Recommendations

For Recommendation Nos. 3.1, 11.4, and 11.6, the Mission still has to take effective corrective actions that would justify the closure of these recommendations. However, instead of reopening the September 1996 audit recommendations verbatim, we are rewording and reissuing them as new recommendations that consider current circumstances.

Recommendation No. 3.1 required the Mission to establish a plan on the minimum cycle of supervisory visit coverage by its own staff. At the time of the 1996 audit, Mission staff directly overseeing the Title II programs were the Food for Peace Officer and three foreign national staff. At the time of our current audit, Mission staff consisted of the Food for Peace Officer, three foreign national staff who oversaw the cooperating sponsors directly, and two other foreign national staff who dedicated part of their time to provide other technical supervisory assistance for information systems and micro credit programs. Although Mission staffing has provided increased support of the Title II programs since 1996, nevertheless, the Mission does not have a plan for a minimum cycle of supervisory visit coverage by each of its staff. During fiscal year 1999, the amounts of supervisory visits by the Mission Title II staff varied considerably. Each of the foreign national staff are on contract with annually established work requirements. However, these annual work requirements do not establish minimum expectations for site visit coverage—an important function of these staff.

> *Recommendation No. 1: We recommend that USAID/Peru establish expectations for minimum site visit coverage for each of its Title II foreign national staff in their annual work requirements.*

Recommendation No. 11.4 required the Mission to ensure that the cooperating sponsors have effective procedures to check the reliability of reported results. Each of the cooperating sponsors has annual monitoring and evaluation plans. The fiscal year 1999 plans have sections that describe their management information reporting systems for results data which is reported against common performance indicators. These monitoring and evaluation plans describe the steps in the results reporting process from regional units, which should check the reliability of data. Nevertheless, our audit on performance results (Audit of USAID/Peru's P.L. 480 Title II Program Results, Report No. 1-527-00-003-P, May 5, 2000) has identified systematic weaknesses in the accuracy of reported results. Nine of the 15 reported results were inaccurate from all five cooperating sponsors. As such, the Mission needs to directly address these shortcomings including the procedures within the cooperating sponsors.

> *Recommendation No. 2: We recommend that USAID/Peru ensure that each cooperating sponsor establishes effective procedures to check the reliability of results to be reported to USAID/Peru.*

Recommendation No. 11.6 required the Mission to verify results information reported by the cooperating sponsors. The Mission Title II food office does not and has not verified data results from the cooperating sponsors. Technically, direct data results verification on an annual basis goes beyond the requirements of USAID's Automated Directive System (ADS).

Specifically, ADS E203.5.5 states that "Data quality will be assessed as part of the process of establishing performance indicators and choosing data collection sources and methods. Data quality will be reassessed as is necessary, but at intervals of no greater than three years." Nevertheless, our audit on performance results has identified systematic weaknesses in the accuracy of the Mission's Title II reported results, where 9 of the 15 reported results were inaccurate. As such, the Mission needs to directly address these shortcomings via both verification of results and assessments of data sources and methods in the near term and reassessments periodically thereafter. A recommendation for the Mission to perform assessments of its Title II performance indicators is included in the companion results audit report. In regard to verification, the Mission should verify all Title II performance indicator results for the Results Review and Resources Request (R4) already prepared this year, 2000. In addition, the Mission should verify all Title II performance indicator results for the R4 prepared in 2001 prior to issuance.

Recommendation No. 3: We recommend that USAID/Peru verify all Title II performance data identified in its R4s prepared in 2000 and 2001.

Other Issues

In addition to the above issues, we identified other findings which were not significant to the audit objective and, thus, are not included in this audit report. These findings were communicated to USAID/Peru by a separate memorandum dated May 5, 2000.

Management Comments and Our Evaluation

USAID/Peru agreed with the report and is planning to implement each of the three report recommendations. Based on the information provided by the Mission, management decisions have been reached on Recommendation Nos. 1, 2, and 3.

Scope and Methodology

Scope

The Office of the Regional Inspector General/San Salvador conducted an audit, in accordance with generally accepted government auditing standards, of the continuing Mission actions that justified the closure of seven recommendations from the September 1996 audit report of USAID/Peru management of Title II food aid programs. These seven recommendations are essential to both Mission Title II food distribution controls and Mission Title II results reporting. The audit was conducted at USAID/Peru and five cooperating sponsors (Adventist Development and Relief Agency (ADRA); CARE; Caritas; Proyectos en Informatica, Salud, Medicina, y Agricultura (PRISMA); and TechnoServe) from October 28, 1999 through February 10, 2000.

In addition to the Mission and the five cooperating sponsor headquarters in Lima, we also visited cooperating sponsor regional or subrecipient offices (and four food warehouses) in Ayacucho, Cuzco, and Juliaca for ADRA; Piura and Cuzco for CARE; Iquitos, Piura, and Tarapoto for Caritas; and Puno for TechnoServe. We also visited 37 project sites (fish pond farm, irrigation channels, children and pregnant mothers nutrition and feeding programs, road building, guinea pig farm, coffee plant nursery, potable water construction, health post construction, chicken farm, endangered tree management, water reservoir rehabilitation, greenhouses, goat farm, and community food warehouses) in 18 communities. Due to both security and logistical restrictions, we could not visit regional offices and community projects according to a random sampling. Nevertheless, our site visits were designed to provide coverage according to several variables including the northern and southern sections of the country, the rural highlands and the jungle (the two principal areas of Title II programs due to the extreme poverty), and different cooperating sponsors—especially ADRA and Caritas who will continue a high level of direct food distribution.

Methodology

In answering the audit objective, we interviewed officials as well as reviewed and tested documentation at USAID/Peru and the five cooperating sponsors. Such documentation included Mission staffing and organization; maps; annual Mission R4 reports; Mission internal control assessments; USAID Regulation 11; USAID, Bureau, and Mission R4 guidance including USAID Center for Development Information and Evaluation (CDIE) Tip Series Numbers 6, 7, 8, and 12; Bureau guidance for cooperating sponsor annual results reports, historical funding and food distribution data, Mission ledger

for tracking food losses and claims; independent evaluations during 1998 and 1999; annual cooperating sponsor results reports; annual cooperating sponsor monitoring and evaluation plans; quarterly reports (including losses) provided by four non-governmental organizations for fiscal year 1999, the most recent complete fiscal year; and numerous other internal control documents used by the cooperating sponsors to track the warehousing and distribution of food commodities. We also reviewed applicable prior Office of Inspector General audit reports and summaries; audit reports of cooperating sponsors; and 1997 correspondence documentation associated with the closure of the recommendations from the September 1996 audit report.

In the case of the three recommendations in which the Mission still has to take effective corrective actions, we generally did not assess the cause for the lack of continuing Mission actions due to the age of the recommendations (approximately 4 years) and intervening staff turnover.

We also reviewed applicable internal controls to obtain a sufficient understanding of the design of relevant internal control policies and procedures. The relevant internal controls were limited to the Mission's and cooperating sponsors' systems for Title II food distribution and the Mission's Title II R4 results reporting.

U.S. AGENCY FOR
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DEVELOPMENT

MEMORANDUM

March 23, 2000

TO: Timothy E. Cox, RIG San Salvador

FROM: Thomas L. Geiger, Director, USAID/Perú

SUBJECT: Audit of the Follow Up on Recommendations from Audit Report No. 9 - 527-96-007 of USAID/Perú's Management of Non-Emergency Title II Food Aid Programs
(Report No. 1-527-00-xxx-P)

Thank you for the audit report that is the subject of this memorandum. USAID/Peru agrees with the report as drafted and electronically submitted to us on March 17, 2000. The following are the actions planned by USAID/Peru to implement each recommendation of the subject report.

Recommendation No. 1: We recommend that USAID/Peru establish expectations for minimum site visit coverage for each of its Title II foreign national staff in their annual work requirements.

Action Planned by USAID/Peru: The annual work requirements of each member of USAID/Peru's Strategic Objective No. 2 team who has monitoring responsibilities of Title II (sub)programs will be modified to establish expectations for minimum site visit coverage.

Recommendation No. 2: We recommend that USAID/Peru ensure that each cooperating sponsor establishes effective procedures to check the reliability of results to be reported to USAID/Peru.

Action Planned by USAID/Peru: Each cooperating sponsor will be requested to develop and implement effective procedures to check the reliability of results to be reported to USAID/Peru. These procedures will be used on the data provided to USAID/Peru for the Title II R4 annex on FY 2000 results.

Recommendation No. 3: We recommend that USAID/Peru verify all Title II performance data identified in its R4s prepared in 2000 and 2001.

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Timothy E. Cox, RIG San Salvador March 23, 2000

Action Planned by USAID/Peru: USAID/Peru will verify FY 1999 results and assess their data sources and methods, as well as the FY 2000 results data before they are approved for the R4 to be prepared in 2001.

USAID/Peru will coordinate with M/MPI the specific actions to be taken, and how they are completed, to resolve each recommendation.