AGENCY FOR INTERNATIONAL DEVELOPMENT
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OFFICE OF THE AUDITOR GENERAL

AREA AUDITOR GENERAL - LATIN AMERICA

AUDIT REPORT

USAID/PERU

P.L. 480, TITLE II

For the Period July 1, 1974
through June 30, 1974
Audit Report No. 1-527-75-25
Date: December 31, 1974

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AUDIT REPORT

P.L. 480, TITLE II

PERU

For the Period July 1, 1970, through June 30, 1974

I. INTRODUCTION

Peruvian children have been provided with school lunches from P.L. 480, Title II, food since 1961. The program is managed by the Peruvian Government and three American voluntary agencies: Catholic Relief Service, Seventh Day Adventist Welfare Service, and Church World Service. Program operations were reviewed to see how well Title II commodites were managed.

II. SUMMARY

On balance, management of the P.L. 480, Title II, food program in Peru has been satisfactory. The program has succeeded in upgrading the nutrition of school-age children. Even so, there are opportunties for better administration of Title II commodities:

The Peruvian Government office primarily responsible for the school-lunch program does not have the authority needed for fully effective program management. We have recommended that the Mission press the Ministry of Health to consolidate responsibility for program management and require more effective interagency cooperation.

Poorly monitored contract bakers are turning out substandard products. We have recommended that the Mission ask the Ministry of Health for a schedule of projected inspections of bakeries and that the Mission make spot checks on its own.

In general, commodity distribution under the Church World Service program would have to be rated unsatisfactory. We have recommended that the Mission require Church World Service to upgrade inspection of and reporting from field distribution activities. The Church World Service program is the smallest of those managed by cooperating sponsors.

In an exit conference on November 23, 1974, Mission personnel expressed general agreement with the contents of this report.

III. STATEMENT OF FINDINGS AND RECOMMENDATIONS

The School Lunch Program

Responsibility for managing the school-lunch program has been so fragmented within the Peruvian Government that the distribution of food has been severely impaired. There is little cooperation between the several offices involved. Funds budgeted to pay for the transportation of Title II food are reallocated to other government programs which have higher priority in the opinion of the Ministry of Health. In some cases, the distribution of food has been delayed so long that it has spoiled in the warehouse.

The Ministries of Health, Education, and Agriculture share responsibility for managing Title II food. Within the Ministry of Health, the School-Lunch Office has the responsibility for allocating food to recipient institutions. This office also supervises the movement of food from regional warehouses to schools. The Ministry of Education is responsible for preparing and serving the food. Agriculture is responsible for clearing incoming Title II food through customs and moving it out of the port into Ministry of Health regional warehouses.

The Ministry of Agriculture has been successful in clearing Title II food through customs promptly. Lengthy delays occur in movement from the Agriculture warehouse to the regional warehouses operated by the Ministry of Health. Agriculture's port employees failed to act on distribution orders from the School-Lunch Office. In August 1974, for example, we saw food in Agriculture's warehouse that had been received in June. Agriculture had received the distribution order from the School-Lunch Office in May. Routine movement of Title II food out of Agriculture's warehouse cannot be expected until ground rules have been established for cooperation between Agriculture and Health.

The Ministry of Health is responsible for the slow movement of food from regional warehouses to recipient schools. Medical directors in the Ministry's regional hospitals are in charge of the regional warehouses. Funds for the transportation of Title II food from warehouses to schools are in hospital budgets. These funds can be reprogrammed at the discretion of the medical director. In actual practice, funds are frequently reprogrammed. Title II food then lingers in regional warehouses for lack of money to pay transportation costs. This problem could be forestalled if the School-Lunch Office controlled funds set aside for transportation of Title II food.

It would be unrealistic to attribute all spoilage to delays in distribution. But delays are significant among the several causes of spoilage. The table below shows spoilage during the period under audit. Quantities are in metric tons:

Fiscal 1972	384
Fiscal 1973	630
Fiscal 1974	119

The estimated value of the spoiled food was $214,000. Dollar-wise, spoilage accounted for over 6½ percent of the Title II food shipped into Peru under the Government-to-Government program.

Recommendation No. 1

The Mission should press the Ministry of Health to:

(a) Consolidate responsibility for Title II food in the School Lunch Office.

(b) Give the School-Lunch Office funds for transportation of food from regional warehouses to schools.

Recommendation No. 2

The Mission should press the Ministry of Agriculture to act on distribution orders from the School-Lunch Office.

Baking Contracts

Contract bakers in the Lima-Callas area were poorly supervised by the Ministry of Health. As a result, baked goods produced for the school-lunch program were substandard.

Next to powdered milk, wheat flour accounts for more dollars and tons than any other Title II commodity donated to the school-lunch program in Peru. Flour is generally converted to baked goods under contracts between the Ministry of Health and commercial bakeries.

We visited three such bakeries in the Lima-Callas area. All were combining local flour with enriched Title II flour (usually on a 1:1 ratio) to produce baked goods for the school-lunch program.

In addition, all were producing baked goods that weighed from 3 to 9 percent less than required. Bakery employees told us that Title II flour diverted from the school-lunch program was used for commercial production.

Ministry of Health personnel told us that they did inspect contract bakers. They were unable to give us specifics on which bakers had been inspected when.

Recommendation No. 3

The Mission should ask the Ministry of Health for an acceptabel schedule of projected field inspections of contract bakers.

Recommendation No. 4

The Mission should schedule its own spot checks of contract bakers to see that contract specifications are being met.

Church World Service

Church World Service has not managed the distribution of Title II food effectively. Records of inventory and consumption are either incomplete or unreliable. Field supervision has been almost non-existent. As a result, distribution points have accumulated excess stock on hand. In one case, the accumulation of excess resulted in considerable spoilage.

Church World Service distributes Title II foodstuffs to needy people through 77 distribution points. Most are primary schools and mother-and-child feeding centers. In visits to Church World Service and nine distribution points, we observed serious management weaknesses. For example:

--Church World Service figures on the number of people who receive food at distribution points are wrong. Original projections have never been updated. As a rule Church World Service figures are high. Food is issued to distribution points on the basis of unrealistic Church World Service figues on how many people are expected to be served.

--Distribution points do not report quantities of stock on hand to Church World Service. Without inventory reports, Church World Service has no way to tell whether excesses or shortages are developing.

--Church World Service records of issues to distribution points do not agree with records of receipts at distribution points. Church World Service drops inventory from item accounting records when issues are authorized and not when actually withdrawn. Receiving institutions sometimes delay pick-up for months. Actual inventory therefore exceeds book inventory.

--Church World Service does not inspect distribution points often enough to know how well the system is working. None of the distribution points we visited in Lima had ever been inspected by Church World Service.

Lack of supervision and management information resulted in excess stock on hand at all of the 5 distribution points we visited in the Lima area. In some cases, excesses exceeded 100 percent of requirements. The manager of one distribution point told us that he had once had to dispose of almost all of his inventory. Unneeded food had been on hand so long that it had gone bad.

Quantities on hand at the four distribution points we visited outside Lima were reasonable. We found no serious excesses or shortages at these distribution points.

During the audit, we brought these matters to the attention of Mission personnel who reported them to the Director of Church World Service in Peru. He assured the Mission that corrective action would be taken. Meanwhile, at the Mission's request, Church World Service has suspended distribution in Lima pending visits to the distribution points by a Church World Service inspector. We believe the Mission should take the actions recommended here before agreeing to a resumption of delivery.

Recommendation No. 5

The Mission should require Church World Service to submit an acceptable schedule of projected field inspections.

Recommendation No. 6

The Mission should make sure that a satisfactory system for reporting consumption and stock on hand at distribution points has been set up.

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IV. BACKGROUND AND SCOPE

A.I.D. has provided food to Peru under various P.L. 480 programs for 13 years. Among them are the school-lunch program, the food-for-work program, institutional feeding programs, and other miscellaneous programs. In the last 10 years, A.I.D. has donated $40,107,000 worth of P.L. 480 foodstuffs to Peru. Nearly a million Peruvians received food from these programs in 1974.

In our examination of the P.L. 480, Title II, program, we reviewed operations of the Mission, Peruvian government agencies, and American voluntary agencies involved in the administration of the programs. Our audit covered the period from July 1, 1971, through June 30, 1974. The value of commodities donated by A.I.D. during this period was $11,909,000.

V. FOLLOW-UP ON PRIOR AUDIT REPORT

Results of the last audit of the P.L. 480, Title II, program in Peru were reported in Audit Report No. 69-1, November 26, 1968. All of the seven recommendations in the report have been cleared.

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