



Auditor General

**CATHOLIC RELIEF SERVICES (CRS)
 P.L. 480, TITLE II PROGRAMS AND SECTION 204 GRANTS
 IN EGYPT**

CRS monitoring and oversight of its portion of the P.L. 480, Title II programs in Egypt has been generally satisfactory. However, insufficient progress is evident regarding the nutrition education programs and the effort to reach the undernourished target group of preschool children (up to age 6) identified by the basic program strategy and objectives. Also, there are significant problems with the P.L. 480, Title II program in the Beheira Governorate of Egypt, including significant diversions and misuse of Title II Commodities.

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EXECUTIVE SUMMARY

Introduction

In October 1978, AID's Area Auditor General for Egypt (AAG/E) initiated a review of P.L. 480, Title II Food Assistance activities in Egypt managed by Catholic Relief Services (CRS). The audit covered the financial activities of the program from July 1, 1976 through September 30, 1978.

P.L. 480 Title II authorizes provision of agricultural commodities, to meet famine or other urgent or extraordinary relief requirements; to combat malnutrition, especially in children; to promote economic and community development in friendly developing areas; and for needy persons and nonprofit school lunch and preschool feeding programs outside the United States.

Priority for food aid is to be given to malnourished children in preschool programs and the poorest regions of countries.

CRS operates in Egypt under a basic agreement with the Government of the Arab Republic of Egypt (GOE). This agreement, establishing the rights and responsibilities of each party regarding CRS activities in Egypt, was signed on April 3, 1974, with no specified termination date.

In accordance with the basic CRS-GOE agreement and relevant AID agreements and approved programs, CRS currently assists the GOE in the following activities receiving U.S. assistance, either through provision of P.L. 480 Title II commodities or through grants:

<u>Name of Activity</u>	<u>Number of Recipients</u>	<u>\$ Value ^{1/}</u>
a) School Feeding	1,100,000	\$ 7,732,000
b) Maternal Child Health (and) Nutritional Education (Section 204) ^{2/}	500,000 N.A.	8,198,000 312,000
c) Other Child Feeding	20,000	1,034,000
d) Sahel Selim Causeway Project (Section 204)	N.A.	89,000
e) Thresher Project (Section 204)	N.A.	100,000
f) Rift Valley Fever Project (Section 204)	N.A.	100,000
g) Boulac School Buildings Project (Section 204)	N.A.	20,000
TOTAL	<u>1,620,000</u> =====	<u>\$17,585,000</u> =====

^{1/} Cost of Title II Commodities approved for FY 1978. For Section 204 Grants, values shown are the total amounts obligated.

^{2/} P.L. 480, Title II Section 204 provides for grants of funds to be used to assure that Title II Commodities are used effectively or for self-help activities.

Our audit focused on four of these activities:

School Feeding - This program distributes food. It provides commodities for a "snack" type lunch to about 1.1 million children in primary schools in Northern Egypt. Most of these children attend schools in rural areas.

Maternal Child Health (MCH) - This program is operated in 23 governorates throughout the country, assisting about 500,000 children. This program distributes food through a network of MCH clinics and health units. Initially directed toward assisting mothers and preschool children, the program currently assists only a small percentage of children age 3 and under because of limited commodities available for this program.

Nutritional Education - The original plans for both the School Feeding and MCH programs contained major nutritional education components. These programs were intended to educate mothers of the need for supplemental feeding of children. The nutritional education component of the School Feeding program was never implemented. The nutritional education component of the MCH program has been approved since June 1977, but project activities have not begun.

Other Child Feeding - This program is directed toward assisting children under the age of 14. Generally, this assistance is given to centers for orphans and nonprofit daycare centers for underprivileged children of working mothers.

Involvement in these four and other development activities in Egypt makes CRS a significant element in the general GOE effort to alleviate the deprivations of poverty experienced by the vast majority of the Egyptian people. Furthermore, we believe that CRS activities, funded by U.S. foreign assistance, will assume even greater importance as the tempo of U.S. assistance efforts in Egypt increases in the wake of the Egyptian-Israeli Peace Agreement. We are, therefore, hopeful that the audit effort represented by this report, will assist CRS, the GOE and USAID/Egypt in meeting the challenges to be faced in the months and years ahead.

Audit Purpose

The purpose of our audit was to:

- evaluate CRS management of its portion of the P.L. 480, Title II Program in Egypt;
- evaluate the effectiveness of USAID program monitoring;
- verify the actual use of the P.L. 480 food commodities on a selected basis; and
- evaluate progress toward program objectives.

In fulfilling these tasks, we reviewed CRS internal procedures and controls, the CRS-USAID relationship regarding the program, documentation and commodity requirements and use, and basic authorizing documents. Field visits were made to selected locations to verify receipt and use of commodities. However, in the case of the Beheira Governorate, where serious problems related to the misuse of P.L. 480 commodities exist, we were unable to do a field inspection due to various circumstances discussed later in this report.

Conclusions

Number 1: CRS monitoring and oversight of its portion of the P.L. 480, Title II program in Egypt has been generally satisfactory. However, insufficient progress is evident regarding the nutrition education programs and the effort to reach the undernourished target group of pre-school children (up to age 6) identified by the basic program strategy and objectives.

Although School Feeding and Nutritional Education was proposed as a "package" program, the nutrition education part of the proposal has never been implemented and the school feeding program is essentially limited to food distribution.

In June 1977, AID approved a grant of \$312,000 for use in a nutritional education project under the Maternal Child Health Program but no project activities had begun and no funds had been used as late as April 1979.

The actual program emphasis is on primary school feeding instead of the more vulnerable preschool child (up to age 6). School feeding is not the first priority of New Directions legislation, AID, or the target group specified in CRS strategy and Title II program objectives. However, the distribution system for primary schools is easier to use than the less efficient system of the MCH and other food programs.

Number 2: 1.2 million poor rural children of primary-school age, the majority of whom are female, are not being fed because they do not attend school.

Major program emphasis is on school feeding. But, the poorest and most needy Egyptian children of primary-school age do not attend school for various social, cultural and economic reasons. As a result, the CRS program does not reach those rural children who are not able to attend school and who are probably in greatest need of assistance. The majority of these rural children not in school are female.

Number 3: The Maternal Child Health Program (MCH) is not adequately meeting the needs of a large number of rural preschool children.

Major program emphasis is on school feeding although needs of all rural preschool children validly qualifying under the Maternal Child Health (MCH) Program are not being adequately met.

Due to limited commodity assistance, only about 10 percent of the eligible children (age to 3 years) in the MCH program receive food aid. But this program was initially directed toward assisting eligible mothers and preschool children (age to 6 years).

This program is predicated on the basis that nutritional education is essential to overcome malnutrition in preschool age children. However, no nutritional education has been provided to any recipients through this program.

Number 4: There are significant problems with the P.L. 480, Title II Program in the Beheira Governorate of Egypt, including significant diversions and misuse of Title II Commodities.

Despite significant diversions and misuses of Title II Commodities of at least \$250,000 in Beheira Governorate, no formal recovery action has yet been taken either by CRS against the GOE or by USAID/Egypt against CRS, as required by Agency regulations.

Significant diversions and misuses of Title II Commodities in Beheira Governorate were discovered by CRS in August 1977 and, again, in late 1978, the same "errors in distribution" were being repeated.

A joint investigation by the GOE and CRS disclosed serious "errors"; e.g., falsification of recipient signatures; sale of commodities for animal consumption; open misuse and diversion operations by "criminal bands" in front of distribution centers without interference from responsible Center officials; collusion between "criminal bands" and persons within the Beheira Public Health Department; altered or "fixed" records; indications of collusion between Center officials and unauthorized recipients; diversions from valid, needy recipients at specific Centers; and, throughout the Governorate, diversions from poor and needy recipients at 90% of approved locations from the entire first 1977 allocation.

Despite this high-risk situation and the gross nature and extent of Title II commodity misuses, the Beheira Governorate was provided an additional \$750,000 in Title II commodities for almost a one and one-half year period after the Mission had been officially informed of diversions. Deliveries of these additional commodities to the Beheira Governorate after August 1977, only increased the Agency's high-risk position.

Irrespective of investigation results, the GOE has informed CRS in writing that CRS has no basis for or right to enforce a claim for the diverted and misused Title II Commodities. Both CRS and the Mission continue to defer taking formal recovery action which may imply tacit acceptance of the GOE position.

Number 5: A Title II flour exchange agreement has been approved by AID/W and implemented in the CRS School Feeding Program although prohibited by AID regulations unless specific circumstances exist. Compliance with justifications, establishment of relative values, and other requirements of AID Handbook 9, Chapter 5, to support this exchange activity, were not evident. Notwithstanding the regulations, the actual need for this exchange agreement is questionable.

AID/W approved a pound-for-pound flour exchange activity for the CRS School Feeding Program, recommended by the USAID. AID regulations prohibit such exchanges but Handbook 9, Chapter 5 provides for AID/W authorization of the exchange of Title II commodities under well-justified circumstances and only when the exchange involves commodities " ... which cannot be made available by USDA ... "

Justifications required by AID regulations for this exceptional exchange were not evident; nor could we locate documentation to show that the USAID had analyzed any differences between Title II and local flour or established that Title II flour was unacceptable. Moreover, a substantial quantity of Title II WSB is added to the local flour, altering the resultant mixture so that the "bread" produced is considerably different in color, texture, moisture content and taste from the brown "balady bread" traditionally eaten by Egyptians. Since "feteere bread" made from white flour seems preferable to many schoolchildren and is actually provided in some areas, the need for this flour exchange is questionable. (Title II flour is white flour.)

Number 6: Based on comparative figures prescribed by AID Handbook 9, Chapter 5, the GOE has been receiving significant windfall benefits (potentially millions of dollars) from the Title II flour exchange agreement in effect under the CRS School Feeding Program.

AID regulations established the use of exchange commodities as an exception to routine and require special procedures be implemented. Briefly, AID Handbook 9 requires that the relative values of commodities exchanged be established by qualified independent appraisal and be fair to both parties without windfall benefits to either.

We found no evidence that the relative values of the flour exchanged were established by qualified independent appraisal. Nor could we locate evidence that USAID/Egypt established prices of the two commodities to assure that Handbook requirements were met and no windfall benefits accrued. Based on comparative figures for Handbook equal value requirements, the GOE realized a significant "windfall" benefit (over \$2 million) during 1978.

Recommendations

Recommendation No.1

USAID/Egypt in coordination with CRS and AID/W review the P.L. 480 Title II programs in Egypt, and take necessary action to have the programs restructured to emphasize: assistance to the neediest people; nutritional education for mothers of young children; and, commodity assistance for children under age 6.

This recommendation addresses major problem areas referred to in Conclusions No.1, 2 and 3. The recipients of commodities through the CRS Title II programs are not, for the most part, the neediest people in greatest need of assistance. The programs do little to address the basic causes of chronic undernutrition because nutritional education projects have never been implemented. The major emphasis of the food distribution has been to those children fortunate enough to be in school. But the needs of a large number of preschool children are not being adequately met because of less support and emphasis given the Maternal Child Health (MCH) Program for children under 6 years of age. Since the major nutritional problem in Egypt has been shown to occur in the children under 6 years of age, the CRS School Feeding Program is not, for the most part, assisting the children in the age group having the highest degree of malnutrition.

USAID/Egypt is the principal action office, in coordination with the Office of Food For Peace in AID/W. The program is implemented by CRS.

Recommendation No.2

USAID/Egypt in coordination with CRS (a) determine the amount of improperly used P.L. 480 Title II Commodities in the Beheira Governorate; (b) issue a bill-for-collection to the GOE for the value of improperly used commodities; and (c) assure that P.L. 480 Title II assistance to the MCH program in the Beheira Governorate is not reinstated until such time as proper recoveries are realized pursuant to the above bill-for-collection and CRS and USAID/Egypt are reasonably certain the program will function properly.

This recommendation addresses major problem areas referred to in Conclusion No.4 and identified in the MCH Program of CRS in the Beheira Governorate: diversions of substantial Title II commodities from the intended poor and needy recipients (at least \$250,000 identified, but potential

for close to \$1,000,000 of misused Title II Commodities in this Governorate); Title II commodity misuses of a flagrant and criminal nature; the continuing delivery of commodities from late 1977 through December 1978, without action being taken by CRS and the USAID/Egypt to effect recovery for the value of misused commodities, as required by Agency regulations; and, the need to establish and implement proper internal controls to assure use of Title II commodities for the purposes intended by regulations and legislation.

CRS is responsible for effecting collection action for misused commodities and the USAID/Egypt is ultimately responsible for recovering the value of misused Title II Commodities from CRS.

Recommendation No.3

AID/W (AA/PDC) in coordination with USAID/Egypt and CRS immediately terminate the practice of exchanging Title II flour for local flour.

This recommendation addresses the flour exchange activities (discussed in Conclusions No.5 and 6) which are prohibited by Agency regulations unless well-justified under exceptional circumstances when the USDA cannot furnish needed commodities. The requirements of Agency regulations have not been clearly met. Related to this, there were no apparent studies made to establish commodity values and preclude "windfall" benefits, as required by Agency regulations. The GOE may be receiving windfall benefits in the millions of dollars.

USAID/Egypt action is needed, in conjunction with the Office for Food for Peace in AID/W. The program is implemented by CRS.

BACKGROUND

The Voluntary Agency

Catholic Relief Services (CRS), of the United States Catholic Conference, operates in Egypt under a basic agreement with the Government of the Arab Republic of Egypt (GOE). This basic agreement, which establishes the rights and responsibilities of each party for CRS operations in Egypt, was signed on April 3, 1974, and is effective for an indefinite period of time.

In accordance with the basic agreement, CRS and the appropriate Ministries enter into separate agreements annually for each program or project CRS operates in Egypt.

The GOE established an Inter-Ministerial-Committee (IMC) in 1954. IMC is responsible for coordinating and controlling, among other things, all of the programs that provide P.L. 480 Title II assistance. Accordingly, they are always a signatory to CRS agreements on activities that provide Title II assistance.

The Country

Egypt is located in the Northeast corner of the African continent. The country (excluding the Sinai Peninsula) covers an area of 386,000 square miles. The country is divided, for administrative purposes, into 25 governorates. Egypt's current in-country population is about 37 million. More than ninety five percent of the population live in about 5 percent of the country's area located within the Nile Valley and the Delta.

The Nile river runs the entire length of the country, from the South (Aswan) through Cairo North to the Mediterranean (Alexandria and Port Said). For the purposes of this report, the area South of Cairo (Upper Egypt) is referred to as Southern Egypt and the area from Cairo North (Lower Egypt) is called Northern Egypt.

One additional distinction is made when discussing Egypt; four Governorates are referred to as Urban Governorates; i.e.; Cairo (Greater Cairo including Giza), Alexandria, Suez and Port Said. The Urban Governorates are relatively affluent and have a high physical quality of life index (PQLI) 1/ rating. The PQLI for Egyptian Governorates was first developed in a USAID paper, issued in December 1977, which shows their analysis of the 1976 Egyptian General Population and Housing Census. (Data entry systems for this census were provided by the United Nations Fund for Population Activities - UNFPA.) That USAID analysis, using a modified PQLI rating, showed that the inhabitants of the four urban governorates were significantly better off than the rest of the Egyptian population and that the inhabitants of Northern Egypt are better off than those of Southern Egypt. This USAID report and PQLI ratings were

substantiated by an MIT report issued in January 1979. The World Food Program (WFP) considers the governorates of Southern Egypt to be the least developed with the lowest income per capita. The Urban Governorates, of course, have pockets of less privileged but generally the inhabitants of these Governorates are significantly better off than the rest of the population.

The November 1976 Census showed the location of Egypt's population as follows:

<u>Area</u>	<u>Rural</u>	<u>Urban</u>	<u>Total</u>	<u>Percentage</u>
Urban Governorates	-0-	7,859,739	7,859,739	22
Northern Egypt	11,635,949	4,255,024	15,890,973	43
Southern Egypt	8,810,724	3,858,986	12,669,710	35
Total	<u>20,446,673</u>	<u>15,973,749</u>	<u>36,420,422</u>	<u>100</u>
	=====	=====	=====	=====
Percentages	56	44	100	
	==	==	===	

1/ The physical quality of life index measures the extent to which ordinary citizens share some of the benefits of modernization: a reduced incidence of infant mortality, greater overall life expectancy, and the acquisition of literacy, and amenities such as indoor plumbing, potable water and electricity.

AUDIT SCOPE

The Office of the AAG/Egypt reviewed the P.L. 480 Title II activities in Egypt managed by CRS. This review was made intermittently during the period from October 1978 through February 1979. The audit covered the financial activities of the program from July 1, 1976 through September 30, 1978.

The purpose of this examination was to (a) evaluate CRS management of the program; (b) evaluate the effectiveness of USAID program-monitoring; (c) verify the actual use of the commodities on a selected basis; and (d) evaluate progress toward project objectives.

In making this audit, we reviewed (a) CRS internal procedures and controls; (b) CRS and USAID relationship in implementing the program; (c) recording on commodity requirements and use; and (d) basic authorizing documents. We made field visits to selected locations to verify receipt and use of commodities. We also applied other auditing techniques considered necessary during the examination.

As discussed in detail in the body of this report, we did not physically review the activities of the program in the Beheira Governorate.

A copy of the draft report was provided to the Mission for comments which were considered and, where appropriate, were included in this final report.

RESULTS OF AUDIT

Project Management

CRS management of the P.L. 480 Title II Programs in Egypt has been generally satisfactory from the standpoint of oversight and monitoring of those programs implemented. CRS has had less success in getting nutrition education programs started and in reaching the undernourished target group of preschool children (up to age 6) set forth in basic program strategy and objectives.

CRS officials have maintained an excellent relationship with the Mission. They keep an informative dialog with appropriate Mission staff notifying them of problems as they are encountered. The Mission places much credence in CRS ability to properly manage and control the programs. Accordingly, the USAID staff performs minimum oversight and monitoring of CRS programs.

CRS maintains an in-country staff of two Americans, two third country nationals and 25 Egyptian nationals. All of these personnel we encountered during our audit were knowledgeable of the area of their responsibility. The staff appears to be devoted and deeply involved in their projects.

CRS maintains an aggressive end-use schedule particularly when considering the size of their staff in relation to the size of their programs.

Specific programs, discussed in succeeding sections of this report, give better perspective on CRS oversight and monitoring performance as well as those areas of lesser success.

The Target

The recipients of Commodities through the CRS P.L. 480 Title II programs are not, for the most part, the people in greatest need of the assistance. The programs do little to address the basic causes of chronic under-nutrition. We believe the programs can and should be restructured to: direct assistance to the most nutritionally vulnerable group of people (children to age 6); and, emphasize activities that will assist in eliminating the causes of chronic undernutrition.

The Egyptian Ministry of Health's Nutrition Institute with the assistance of the U.S. Public Health Services' Center for Disease Control, Atlanta, Georgia, conducted a country-wide nutrition survey in 1978. The summary report on this survey was issued in October 1978. The findings in this survey generally conform to data developed in prior nutrition surveys, in that it showed that a substantial percentage of Egyptian children under 6 years of age have nutritional problems.

This nutrition survey showed that approximately one million, or 21.2 percent, of the children in Egypt under age 6 exhibited evidence of chronic undernutrition. Chronic undernutrition is indicated by height for age measurements less than 90 percent of the standard. The survey also showed that rural Southern Egypt had a significantly higher prevalence of chronic undernutrition than Northern Egypt. Metropolitan urban populations had a lower prevalence of chronic undernutrition than rural populations.

Additional studies have shown the greatest nutritional problem in Egypt is during the 2 to 3 year-age period. After age 3, a consistent improvement pattern is noted and by age 6, the deviation from the standard is much improved.

Almost every study in Egypt has shown that chronic undernutrition could not be directly related to the lack of nutritional food and/or the socio-economic situation. An analysis by CRS of several nutritional studies on Egypt shows: "Studies of food consumption patterns and family budget expenditures show that the average daily per capita intake is relatively high in comparison with other developing countries and also show that foods consumed are diversified and fairly well balanced nutritionally. Diversified agriculture productivity, cropping intensity, imports of large quantities of wheat, government subsidies and price fixing policies, relatively good transport and marketing facilities contribute to a general situation where ample and varied foods are available at reasonably low cost to a population that has a fairly high employment rate." Accordingly, one wonders why chronic undernutrition is so high among Egyptian children. CRS cites three causes:

(1) Poor weaning and infant feeding practices is the major cause of undernutrition. A large percentage of children are not weaned until they are about two years of age. This is particularly true among the rural illiterate mothers. During this period, supplemental food provided the children is of little nutritional benefit.

(2) Social habits and cultural practices only allow very limited additional food amounts to be fed to the two-year old and high protein foods are severely limited, although milk, eggs and meats are available in the household.

(3) Sexual discrimination, in that the girl infant and girl child is fed the last and least, contributes to girls being more affected with chronic undernutrition.

There is a fourth probable major cause for chronic undernutrition in young children -- the low standards of hygiene which result in children having parasites, gastro-enteritis and other related health problems.

In summary, the major nutritional problems are located in Southern Egypt and in the rural areas of the country. The major groups of people affected are children under age six and particularly females under the age of three. Chronic undernutrition principally results from lack of education and social and cultural practices.

The solution to lowering the rate of chronic undernutrition must then lie in (a) improved nutritional education; (b) changes in social and cultural practices; and (c) assistance to children under six years of age. The majority of these activities should be pursued in the areas of greatest need; i.e.; Southern Egypt and the rural areas.

Unfortunately, CRS has been unsuccessful in delivering any nutritional education services scheduled to be financed by AID through Section 204 grants, and the majority of their recipients are located in Northern Egypt, in urban areas and are over age 6.

Pertinent here, there is a policy decision explaining in part why CRS operates in Northern Egypt; i.e.; it was agreed with the GOE that the WFP would assist school feeding in Southern Egypt and CRS would assist school feeding in Northern Egypt (Northern Egypt includes the four urban governorates referred to in the Background section of this report.)

It would appear then, that this policy decision explains the matter and should be considered. Closer examination and considerations of this policy show:

- the GOE requested the WFP to assist in initiating primary school feeding program in rural areas;
- the WFP agreed to provide this assistance and informed the GOE that they would assist those governorates where the greatest need existed; WFP determined that the governorates of Southern Egypt had the lowest income and were the least developed in Egypt. Accordingly, the WFP provides assistance to Southern Egypt.
- one year later, the GOE requested CRS to assist in a rural primary school feeding program in Northern Governorates. CRS agreed.
- nutritional education was an integral part of the CRS school feeding program proposal, without which a significant shortfall of P.L. 480 objectives would occur, based on the CRS proposal, approved by USAID.

But, highly significant here, this policy decision covers school feeding programs -- children over age 6. This is not the target group identified in the basic CRS strategy and program objectives for the Title II program. Neither does it cover the top priority program of AID -- the MCH program which is directed at the target group of children age 6 and under.

We believe the program should be restructured to emphasize: assistance to the neediest people; nutritional education for mothers of young children; and, commodity assistance for children under age 6.

USAID/Egypt Comments

"We do not believe the report should make the statement "... that 'the program can and should be restructured to: direct assistance to the most nutritionally vulnerable group of people (children to age 6).' That statement appears to be based on conclusions drawn from one survey whose general validity may be subject to question, on a misunderstanding concerning the role of other assistance agencies and on an underestimation of the considerations of administrative and management constraints on the part of the GOE entities involved. We think it would be best for the audit report not to attempt to characterize the situation of the "target group" as it does unless the auditors are prepared to conduct more extensive analyses and base their conclusions on an evaluation of the efforts of all agencies providing food assistance."

Response to USAID/Egypt Comments

Mission comments warrant a full discussion of this significant matter. The audit report statement, questioned by the USAID/Egypt, recommends that the program be restructured to meet objectives and reach the target group stated in the CRS Title II Program Proposal -- approved by the USAID/Egypt. To quote that CRS proposal:

Under the heading, "Strategy and Program Objectives," the CRS basic project proposal states, in part:

"The major nutritional deviation and the highest degree of malnutrition has been shown in Egypt to occur in the children under six years of age, and particularly in the 1 to 3 year age group. . The most structured and effective delivery system to reach this target group is the Ministry of Health's network of MCH and Rural Health Units."
(Underscoring added.)

Restructuring the program is suggested in the audit report because original program objectives and target groups seem to have been neglected for other areas of lower priority to AID and conforming less with "New Directions" legislation than the target groups in the approved CRS Title II program objectives.

The audit report statement, questioned by the Mission, is based on more than "one" survey; in fact, it is largely based on the CRS study which was included as an integral part of the CRS Project Proposal -- approved by the Mission. The CRS study, incorporated into their project proposal, was an excellent and comprehensive study of the impact of the CRS program in Egypt; it fully considered all of the areas cited by the Mission (i.e., the role of other assistance agencies, constraints on GOE entities,

and all available nutrition surveys and studies, including several by the GOE). Additionally, the CRS analysis considered many other areas not mentioned in Mission comments, such as: nutrition status and food supply, dynamic relationships and linkages, target groups and goals, points of intervention, strategy and program objectives, to name a few. The audit report has not attempted to "characterize" the situation of the "target group" as set forth in Mission comments. The audit report material, referred to in the Mission comments, is based on the "target groups" as "characterized" and defined by CRS. These CRS "targets" conform to requirements of the New Directions mandate and to Agency Handbook requirements.

With respect to constraints on the part of GOE entities involved, the Ministry of Health (MOH) planned an increase each year in the number of recipients in this (children to age 6) target group from 227,000 in FY 1975 to ultimately 730,000 in five years. Constraints noted were the need for (a) trained nutritional personnel in MCH and rural health units, and (b) education equipment and training centers. As noted in the CRS strategy statement (above), the network of MCH and Rural Health Centers was considered a structured and effective delivery system.

UNICEF was to furnish the education equipment, demonstration kitchens and further training while CRS was to provide Title II foods of high protein value, an age-weight chart to each child in the "target group" and use Section 204 funds to improve all aspects of the program. The CRS Title II program was initiated to accomplish objectives of the GOE entity involved, with cooperation from another assistance agency, to overcome major constraints of the GOE and meet the top priority of AID as well as the "New Directions" legislation.

But, "constraints" have developed to result in emphasizing food aid distributions of lesser priority involving less needy recipients. CRS comments on this audit report state: "The constraint, as indicated to us by the MOH, has been (a) the capacity of their delivery system to handle significantly higher quantities of the P.L. 480 Commodities, and (b) the cost to the MOH for receipt, storage, handling and distribution of these commodities." On the other hand, CRS notes that the "... delivery system that the MOH has organized ... has proven to be an extremely efficient and well managed means for reaching the 2.3 million children in rural areas" under the School Feeding Program.

It would appear that delivery system constraints and cost constraints are only insurmountable problems in implementing that program directed towards the target groups of rural poor children under age 6. The GOE seems to have overcome these constraints under the School Feeding program. USAID/Egypt comments indicate that the original CRS program "target group" has been relegated to a lower priority and the program should be restructured to get back to that top AID priority program, conforming with "New Directions".

It appears that convenience of delivery has a greater influence on the selection of CRS Title II program recipients in Egypt than Agency priorities and "New Directions" legislative mandates. Major emphasis is placed on the school feeding programs. Of interest here, the Agency is currently responding to overall external criticism because school feeding programs have been over-extended and are feeding a lot of children who really are not that needy while much greater needs in the MCH sector are not being met adequately. Constraints are also cited for not meeting preschool MCH needs while significant increases in school feeding have been justified largely on the basis that the (Host Governments) view it as a top priority even though AID has often noted that children from the lowest strata do not attend school.

Primary School Feeding Program

CRS primary-school feeding program provides commodities to about 1.1 million children. These recipients are all located in Northern Egypt; a large percentage are in the urban areas of Northern Egypt and Urban Governorates; all are over six years of age, and, the majority are male. (The WFP has a primary-school feeding program, for about 1.1 million children, in Southern Egypt. This program is also directed at children over the age of 6.)

Originally, CRS had proposed a nutrition education aspect to the school feeding program. This part of the project proposal was never implemented. In effect, therefore, the program is limited to giving food to those children fortunate enough to be in school. But, in all probability, the children who received the food are neither the most economically deprived nor the ones of that age group in the greatest need of the assistance. That is, of 1.2 million new children eligible each year to enroll in first year primary schools, the system can accommodate only 900,000. Additionally, about 200,000 children drop out of primary schools each year. Accordingly, each year there are about 500,000 additional children joining the illiterate population. It follows that most of the children who, at age of six and over, have chronic undernutrition are the ones who do not enter schools and/or the ones who drop out. (These children represent about 42 percent of the total).

The combined food programs of the GOE, WFP and CRS/AID assist almost 100 percent of children attending rural primary schools, based on information supplied by CRS.

In the light of "New Directions" mandates, however, it is highly significant in analyzing this program; that 1.2 million children in rural areas of primary-school age, according to CRS, do not attend school. The majority of these rural children are female.

Primary-school attendance is required by Egyptian law. Yet, 1.2 million rural children do not attend primary school. Some of the basic, underlying reasons are: (a) they are female; (b) they have health problems

such as chronic undernutrition; (c) they are part of the poorest families and must work to help support the family; (d) they live on small rural farms and are needed to work the land where literacy is not deemed necessary; (e) the need prevalent in the poorest rural families for children to also work for extra income to meet basic requirements of the family unit. It then follows that the 1.2 million primary-school age rural children who do not attend school are probably the poorest, and in greatest need of assistance.

About 42 percent of all primary-school age children do not attend school and these, as shown above, are the ones most likely to have nutritional problems. Beyond, this, as already pointed out in this report, the major nutritional problem in Egypt occurs in children under 6 years of age; therefore, the primary-school lunch program is not directed towards the most vulnerable targets.

Of related interest, the Agency is currently responding to external criticism that (a) today the Title II programs still continue to focus primarily on food "giveaways"; and (b) food aid is not reaching the rural areas or the high priority MCH category as much as it should, and it is questionable whether many of the recipients are among the poorest.

MCH Programs

CRS operates an MCH program in 23 governorates throughout the country, assisting about 500,000 children. However, the assistance is again concentrated in Northern Egypt and includes the more affluent Urban Governorates. More than 72 percent of the recipients under the MCH program are in these areas.

The MCH program originally was to provide assistance to mothers and children. This was later changed to assisting only children age 6 and under. Due to the demand for the limited assistance, the program was again changed to assisting only children age 3 and under. Even with this limited target, commodity assistance is available for only 5 to 10 percent of the children that attend any given health unit.

As previously discussed, 21.2 percent of Egyptian children under age 6 are chronically undernourished and the percentage of these undernourished children is significantly higher in Southern Egypt and the rural areas. But, the MCH program operates primarily in Northern and the Urban Governorates; therefore, it is not directed towards assisting the majority of the children in greatest need.

In June 1977, AID approved a Section 204 grant of \$312,000 for use in a nutritional education project under the MCH program. This project was to be a non-formal gross-roots education effort in 150 health centers. It was hoped that eventually this pilot effort would expand to all 2,400 Egyptian health centers. However, at the time of our audit, no project activities had begun and no funds had been used. So again, we are left with a program that only distributes food. 9

As previously stated in this report, CRS, in the project proposal, approved by USAID/Egypt for the MCH program, pointed out, in effect, that the provision of commodities without providing the recipients adequate nutritional education, would have no positive impact on the target group.

To better evaluate program impact achieved, we again cite CRS strategy and objectives for the program:

"The major causes of malnutrition in the target group* are not due to lack of available food in the household or the socio-economic status of the family but, rather, it is due to negative cultural practices and the failure to providing the growing infant and child nutritious supplementary foods." (* refers to children under six years of age, and, particularly, the 1 to 3 year age group.)

CRS proposed that the major point of intervention should be to first provide nutrition education to reduce the negative aspects of cultural customs and to initiate positive changes, and then to provide nutritious food assistance.

CRS strategy approved by USAID/Egypt, can be summed up as follows:

- a) Sufficient nutritious foods are available in the target group households.
- b) The children are not fed the nutritious foods because of negative cultural practices.
- c) As a direct result, the children are undernourished.
- d) The strategy necessary to overcome nutritional problems in the target group is to convince the families to feed the children nutritious supplemental foods.
- e) The strategy to convince the families to feed the children is to provide the mothers of the target group nutritional education.
- f) CRS/AID should assist with P.L. 480 Title II Commodities as an incentive to keep mothers coming to nutrition education sessions.

In conclusion, based on the CRS program strategy, the giveaway of commodities to families of the target group is of little or no value to the children if the mothers have not received the proposed nutritional education. Since CRS/AID has provided no nutritional education in the MCH program, to date, the provision of food commodities in the CRS/AID MCH program in Egypt has not had the intended positive impact on the target group.

Recap

Egypt's major nutritional problem is that of chronic undernutrition among older babies and toddlers. The causes of chronic undernutrition in Egypt are social habits, cultural practices and lack of knowledge on nutrition.

The major problem areas of chronic undernutrition are in Southern Egypt and in rural areas. The major group that suffers from chronic undernutrition is children under the age of six years.

It appears the best solution to this problem of chronic undernutrition, as stated in the CRS proposals, centers on education. Yet, to date no nutritional education has been provided through the P.L. 480 Title II programs. One Section 204 grant for nutritional education was effected in 1977, but the project is still non-functional. Even this project authorized only \$312,000 of funding. At the same time, AID through CRS is providing annually about \$18 million of Title II Commodities. This distribution of food will not of itself assist in correcting the causes of chronic undernutrition. The food assistance may improve the health of some recipients but does not address the causes of the problem.

CRS to date has not been effective in motivating the GOE to get this type of activity operational. Therefore, the Mission must become more involved in these efforts in the future. This approach appears in line with Agency policy, reflected in AID Handbook 9:

"3.E - A major emphasis of AID policy dealing with Title II is the need for close and continuing attention to program management and control. Since Title II deals with the utilization of expensive and perishable resources, effective program management and control is essential. The requirement of sound program management applies equally to cooperating sponsors and USG Representatives." (Under-scored parts are italicized in the handbooks.)

Currently, external criticism is being leveled at the Agency (a) for allowing food donation programs to be driven by an infrastructure wherein the Volags run the programs with a minimum of AID Mission participation, and (b) regarding the need for AID Missions to take a more active role in the programming and administration of the Title II program and the need for improved monitoring to ensure that programs remain on track.

The provision of nutritional commodities can be of great assistance as an incentive for recipients to take any offered nutritional education. However, without a substantial input of education, the provision only of commodities does not deal with the causes of the problems. Accordingly, we believe strong USAID involvement is needed in coordination with CRS to restructure the Title II programs to emphasize nutritional education instead of only commodity giveaways. This emphasis should primarily be directed towards the people with the greatest need.

Recommendation No.1

USAID/Egypt in coordination with CRS and AID/W review the P.L. 480 Title II programs in Egypt, and take necessary action to have the program restructured to emphasize: assistance to the neediest people; nutritional education for mothers of young children; and, commodity assistance for children under age 6.

USAID/Egypt Comments

"We think that Recommendation No.1 should be rephrased to call for additional efforts in nutritional education, and that it not include references to restructuring of the program to serve different target groups ... "

Response to USAID/Egypt Comments

Additional efforts are needed in nutritional education, as set forth in Mission comments and discussed in preceding sections on specific programs. Equally important are the "New Directions" mandate of the U.S. Congress, embodied in Agency policy, directed towards reaching target groups within the "poorest majority" of the people in a country.

In fact, AID is currently responding to external criticism regarding the need for AID to restructure the way Title II food aid is allocated, programmed and delivered within developing countries in order to achieve the basic human needs and "New Directions" objectives.

The external evaluation of AID is critical of areas where the School Feeding program has been allowed to grow and the infrastructure has been built up over the years while the highest priority MCH preschool programs have not really had the same emphasis or growth. CRS comments agree that, in only programming to reach 500,000 recipients under the 1978 program, they are not coming close to meeting all those who could qualify as valid MCH recipients. A major constraint of the MCH program, indicated by the MOH, is the delivery system capacity. But, the infrastructure of the primary school network "has proven to be extremely efficient" and capable of handling 2.3 million recipients. The CRS Title II program in Egypt for FY 1978 emphasizes school feeding program recipients (1.1 million).

But, the CRS basic and original Title II program strategy, objectives and target groups are in line with New Directions legislative mandates and Recommendation No.1 is directed towards reaching those same target groups and objectives.

Diversions of P.L. 480 Title II Commodities
in the Beheira Governorate

As early as August 1977, during a surprise review of MCH program operations in the Beheira Governorate, the CRS Director found sequestered records, previously not made available to him, which indicated that P.L. 480 Title II Commodities were being diverted from approved uses. These separate records indicate that Title II Commodities were not distributed to 90% of the approved recipient locations. Since that date, six investigations of the program have been made by various elements of the GOE, CRS and IIS/Cairo. One investigation, made by the GOE, was not available for our review. But, the other five investigations all substantiated that P.L. 480 Title II Commodities were diverted from approved program uses. As late as March 1979, however, USAID/Egypt has not yet determined the exact nature and extent of the diversions nor made any effort to implement Agency regulations for recovering from the responsible party the value of all misused commodities. Potential misuse is significant. Through CRS, the Agency during the CY 1977-78 period alone, provided about \$1 million of P.L. 480 Title II Commodities to the Beheira Governorate for the MCH program -- to date, these commodities have not been properly accounted for. Further, the GOE has taken the position that diversions and misuse of commodities are past mistakes and claims for compensation will not be honored.

Although CRS reported this evidence of significant diversions immediately after discovery back in 1977, and again in December 1978, the USAID has done little to correct the problem or to resolve the extent to which Agency regulations have been violated or circumvented. However, CRS in December 1978, stopped delivery of commodities to this Governorate.

CRS and USAID officials told us they had an agreement that CRS would not issue an official claim for the value of the misused commodities against the liable party until the GOE had completed all their efforts to correct the situation. The situation was surfaced in August 1977 and, to date (April 1979), they are still waiting for the GOE to take prompt and effective action in the Beheira Governorate.

In the meantime, the Beheira Governorate was provided additional commodities totaling about \$750,000 for almost a one and one-half year period after the Mission was officially informed by CRS that the commodities were being diverted. Given the known misuse and diversions, it appears less than sound judgment to have allowed the activities to continue under this high risk-factor situation. The deliveries of additional commodities to the Beheira Governorate from August 1977 to December 1978 only increased the Agency's risk position. The fact that diversions were found by CRS in August of 1977, and, again, in December 1978, supports this assessment. It would seem that the Mission would have already taken recovery action against CRS, in accordance with Agency regulations, in view of CRS failure to take recovery action against the GOE.

Applicable basic criteria follow:

(a) AID Regulation 11. requires that cooperating sponsors institute and pursue formal claims against liable third parties for the value of misused commodities. Cooperating sponsors who fail to do so are liable to AID for the value of the misused commodities. USAID is responsible for ensuring that cooperating sponsors properly file and effectively pursue formal claims.

(b) AID Handbook 9, Chapter 3, states:

"A major emphasis of AID policy dealing with Title II is the need for close and continuing attention to program management and control. Since Title II deals with the utilization of expensive and perishable resources effective program management and control is essential. The requirement of sound program management applies equally to cooperating sponsors and USG Representatives." (Underscored parts are in italics in the AID Handbook.)

Prompt and effective corrective action by those managers responsible for these programs is in the best interests of the Agency, the U.S. Government, the GOE, and especially of those poor and needy Egyptian people who have not received commodities and for whom the program was established and justified. Acceptance of the GOE position that recovery of the value of improperly used commodities cannot be enforced would be a direct violation of the Agency's own regulations -- this could subject the Agency to charges that it is not efficient, responsive and accountable to Congress and the American taxpayers.

Preliminary Investigation - CRS

On August 23, 1977, the CRS Director made a surprise visit to the Public Health Department of the Beheira Governorate. CRS reported "Records, that apparently were not normally to have been made available to certain CRS officials, were on that day shown to the Program Director. A short examination of these records showed that in this Governorate there appeared to be a substantial deviation from the planning, programming and directives of the MOH. For example, in the first allocation of the 1977 program, the entire amount programmed for 200 centers in the Governorate was supposedly sent to but nineteen centers of the Governorate. One particular markaz or district of the Governorate seemed to have been favoured ... "

Based on these "separate" records, commodities justified, approved and programmed for 181 centers (200 less 19) or 90% of the locations, were diverted from these intended poor and needy recipients.

Follow-Up Investigation - CRS

Because of these preliminary findings, the CRS Director sent an end-use evaluator to Beheira, in September 1977, to conduct an intensive investigation. The evaluator "... spent 14 days in the Governorate pursuing leads and clues, but was hindered in her task by what appeared to be deliberate obstacles set up to the pursual of her investigation ...".

The CRS Director reported the diversions to USAID/Egypt. The USAID Director in turn, on September 29, 1977, wrote to the AA/NE and reported in part "At this stage, it seems that CRS foods for MCH programs were distributed in support of an election campaign." The CRS Director's "main purpose in coming to me - in addition to informing me - was to seek my agreement to his initiating a vigorous effort with governmental authorities to undertake a formal investigation. I told (him) that I wanted him to pursue the matter strongly. I later checked this out with the Charge and he also fully agreed. I made it clear to (him) that in the event he should find that government does not pursue the matter with vigor, I, and later, if necessary, the Ambassador would be fully prepared to discuss it with senior government officials."

"Since the Ambassador and I have made it regularly clear to senior officials throughout Government that we must all concern ourselves deeply and regularly about the probity of our programs, I feel reasonably confident that we will get prompt action on their part."

Joint Investigation - CRS and GOE

Subsequently, CRS and IMC made a joint investigation of the MCH activities in the Beheira Governorate. This joint investigation found serious violations in program operations; e.g., falsification of recipient signatures, sale of commodities for animal consumption, distribution of commodities to persons not identified, and registration in the records of quantities in excess of the quantities actually distributed.

Some of the things brought out in this report follow:

- the entire first allowance of Title II Commodities were distributed to the centers in one markaz (district) only; i.e.; only 19 centers out of a total of over 200 under the CRS program received commodities.
- although each allocation covers planned recipient needs for a two-month period, 6 centers received enough food rations for 3 years (or longer) from the first three allocations (1977); some centers received commodities during all three allocations although they had received sufficient amounts in the first allocation for one whole year (or longer).

- program plans of the MOH-CRS-IMC were completely circumvented and superseded without authority by the Beheira Public Health Department.
- Beheira Public Health Department revised plans were further circumvented and distorted by many of the centers.
- although the program is directed towards rural assistance, only one rural center (out of 150) received some commodities from the 1977 allocations; the remaining rural centers were not given any commodities because they were "far away" from the distribution center; i.e., in the rural areas.
- "Criminal bands" were formed who specialized in either buying or taking the commodities from recipients "the moment they received them" with or without the recipients' consent. Responsible persons in the Beheira Public Health Department (names and positions undisclosed) informed the heads of these "bands" as soon as CRS Title II Commodities arrived at the main warehouse at Damanhour and, later, again informed them of the dates of distribution to the centers. With this information, these bands were able to "spread" their "members" to most of the distributing centers to either buy or take the commodities from recipients. After "gathering" CRS Title II Commodities in this manner, the bands sold them for profit to cattle and poultry breeders and milk factories. These bands operated openly in front of the distribution centers without interference from responsible officials in-charge of the centers. In fact, the bands operated their own "stores" or storage places of diverted Title II Commodities.

Unannounced visits were made to 7 centers. Based on this sample, the IMC-CRS team found serious violations of regulations and commodity diversions, including: (a) no supervision or monitoring of center activities; (b) issuance of commodities to center employees; (c) distributions to many ineligible recipients; (d) valid recipients received either no commodities or less than authorized; (e) distribution records not available; (f) distribution records inaccurate; (g) altered or "fixed" records showing large distributions that were not made; related commodities were not accounted for; (h) Center Directors (Doctors) and

employees who gave false oral information regarding distribution; (i) Center Directors who were not aware of the program objectives, plans, and/or claimed to have no knowledge of distribution activities; (j) failure to distribute according to criteria for recipients; and (k) signatures other than the authorized recipients were shown on distribution lists, indicating possible collusion between Center officials and unauthorized recipients (in some cases, commodities for as many as 6 different recipients were signed for by a single unauthorized person; such falsifications would have been obvious to Center personnel).

The Joint GOE-CRS report concluded overall that P.L. 480 Title II Commodities delivered to the Beheira Governorate under the CRS program were not properly accounted for. Given the type of situations disclosed in these selected locations, the propriety of all Title II commodity distribution in this governorate remain questionable.

The gross nature and extent of commodity misuse at the Governorate level district main distribution warehouses and individual centers support the conclusions that termination of deliveries was fully warranted in 1977, as recommended by the GOE-CRS investigative staff. As discussed later in this report, deliveries were continued until December of 1978 before termination.

On December 21, 1977, the USAID Director wrote AA/NE that the CRS/IMC joint investigative report shows "There have been diversions of Title II food as suspected, but the commodities were not used in support of an election campaign as had seemed might be the case."

Special Investigation - GOE

The report of the joint GOE-CRS investigation was presented to the Minister of Health on November 29, 1977. On reviewing the report, the "Minister registered shock and insisted that immediate action be taken." The Minister then arranged for the Chief of the Special Administrative Investigation Unit under the Prime Minister Office to meet within the hour with the CRS/IMC joint team. Following this meeting, the Chief, Special Administrative Investigation Unit, "assigned two inspectors to pursue the matter with immediate effect."

After several attempts by CRS to prompt the GOE to complete their investigation of the diversions of P.L. 480 Title II Commodities in the Beheira Governorate, the GOE on July 22, 1978, notified CRS "We inform you that the study of this matter revealed that there exists no legal discrepancy."

The report on this investigation was not available for our review.

IIS/Cairo Investigation

The July 1978 GOE conclusion that "... there exists no legal discrepancy" in Beheira Governorate Title II programs was not in agreement with internal AID information. For example, on September 14, 1978, IIS/Egypt reported to IIS/Washington concerning the GOE conclusion on the Beheira investigation: "This finding is not consistent with other information."

CRS Follow-Up

CRS was not in agreement with the July 22, 1978 stated results of the GOE Special Investigation. Irrespective of the stated GOE conclusion, on August 10, 1978, CRS notified the GOE of its right and obligation, pursuant to terms of the Basic Agreement and Implementing Agreements, to obtain compensation for the value of diverted commodities; further, CRS noted its responsibility to reimburse AID, as the Grantor, for such diversions. Integral to this notification, CRS presented the GOE with a written claim for the commodities diverted from the first two CY 1977 allocations. This claim totaled almost one quarter of a million dollars and showed that more than 80 percent of the commodities had been diverted from approved uses.

In October 1978, in response to CRS claim for diverted commodities, the GOE took the position that "... there is no damage or loss in the AID commodities in Beheira Governorate and there is no evidence for that in the CRS Inspection Report." The GOE position seems incredulous in the face of CRS inspection results showing: separate sets of commodity records; falsification of recipient signature; recording quantities distributed in excess of actual distributions; distributions to unidentified recipients; and, diversion of commodities from 90% of approved locations. Notwithstanding, according to CRS, "... the Ministry informed us that CRS had no claim for compensation." Further, CRS reported, "... it was stated (by the GOE), that we (CRS) are only able to draw the attention of those responsible, to past mistakes." (In other words, no recoveries for past diversions.) In view of field activities found by CRS, IMC, and of known diversions, the GOE position is not reasonable and, if accepted by USAID/Egypt, portends a precedent with far-reaching, serious consequences for AID-supported programs in Egypt. That is, if the USAID is not allowed, directly or through its agents, to determine and collect the value of improperly or fraudulently used U.S. Government resources, then the Mission is effectively estopped from exercising its responsibilities to properly manage projects and programs, using these USG resources.

Additional Investigation - CRS

CRS stopped distributing commodities to Beheira Governorate in December 1978, because a review "... revealed that the errors in distribution discovered over a year ago were being repeated."

Current Investigation - GOE

USAID/Egypt, CRS and the GOE's Minister of Health held a meeting on January 11, 1979, in which they discussed the Beheira Governorate MCH program. Minutes of this meeting recorded the Minister of Health as stating: "I want two months to investigate the problem of Beheira and other Governorates. I also understand that the food distribution has been recently stopped to Beheira, I would ask (CRS) as a sign of good faith it would be restored as of February."

We had planned on reviewing the MCH program in Beheira Governorate during January 1979. However, the USAID Director felt strongly that if we audited field activities in Beheira, we, in some way, would interfere with this third GOE investigation. It was also his strong position that the newly-appointed GOE Minister of Health should be given the time he requested to correct the Beheira situation and inclusion of this Governorate in our field audit would hamper the Minister's efforts.

We discussed the Minister's planned actions with the USAID Director. At a January 11, 1979 meeting, the new Minister informed MOH, IMC, USAID and CRS managers that he would return from an out-of-country trip on January 23 and instructed MOH and IMC managers to meet with him on that date regarding countrywide activities. He also stated that he would go to Beheira with a newly-designated (countrywide) project officer to solve the difficulties in that Governorate by January 31, 1979. The Minister, then, was on record that he planned to resolve the Beheira problems in about one week (January 23 - 31) with the assistance of a new project officer not yet designated.

We conveyed to the USAID Director our concerns over the entire Beheira situation: significant diversions of Title II commodities; potential embarrassment to the Agency; affect of diversions on accomplishment of program objectives; the lack of positive corrective actions by the GOE, up to this time, despite six previous investigations including two by the GOE; and, in our opinion, the Minister's plans would give him no more than 2 days or so in Beheira, limiting his actions to discussions with operational people in the Governorate. The USAID Director said he thought the Minister would go further than mere discussions, and move some people around and insist that they implement the program correctly. Following that, the Minister would ask USAID and CRS to continue the program. If this is the scenario that transpires, the USAID would support continuing the program.

Under the circumstances, we did not physically review field activities in the Beheira Governorate. Primary considerations included (a) the USAID Director's opposition to our field investigation, as scheduled, and (b) our limited time availability after two weeks of unsuccessful efforts to obtain necessary support for the field trip.

The official Mission response states that the Mission Director " ... did not register objection to a visit by the audit team ... " to Beheira and that he merely requested a "delay" for a "brief period". And, essentially that "No one on the AID staff recalls any specific request for assistance in travel permits or appointments."

Mission comments indicate a different impression than ours of the oral discussions regarding the scheduled audit visit to the Beheira Governorate. Of interest here, the USAID comments do not specify the length of "delay" contemplated. The audit field investigation had been scheduled during January 1979. For perspective, the audit and draft audit report had been completed in early March and sent to the Mission on March 13 for official comments prior to issuing a final audit report. Yet, during a meeting as late as the night of March 26, 1979, CRS and USAID/Egypt representatives " ... raised the subject of audit and asked the Governor (of Beheira) whether he would be agreeable to the AID auditors visiting the governorate to review the problem." (Underscoring added.) It appears that the extent of delay intended for the audit field investigation was an unknown time period, dependent upon agreement between the USAID/Egypt and GOE officials. To delay an audit field investigation for an unknown unspecified time period effectively means either completion of the audit without benefit of the scheduled field investigation or cancellation of the audit and redirection of audit resources to other areas. Considering the nature of available documentation, we elected to complete the audit, working within the constraints of the circumstances.

Significant amounts are involved. During 1977 and 1978, about \$994,000 of P.L. 480, Title II Commodities for the MCH program were distributed to the Beheira Governorate. Improper use of the Title II Commodities in Beheira Governorate was first found by CRS and reported to USAID/Egypt and the GOE in August 1977. CRS established that \$250,000 worth of commodities from the first two allocations of 1977 to Beheira were misused. CRS investigations showed that commodities were still being used improperly in December 1978. The value of the misused commodities may total up to \$744,000 but neither USAID/Egypt nor CRS has determined the amount or extent of these later misuses. After almost one and one-half years and two GOE investigations, the situation remains basically the same -- unresolved.

AID Handbook 9, Chapter 6, and Regulation 11 establish that the USAID is responsible for ensuring that the value of misused P.L. 480, Title II Commodities is collected from the party responsible for the misuse. Although known diversions of commodities were reported by CRS as early as August 1977, the USAID has not yet taken definitive actions to fulfill this responsibility. Additional diversions were again reported by CRS in December 1978, but, as of April 1979, the USAID has not yet taken positive actions to determine and collect the value of misused commodities in this Governorate.

We believe the serious conditions discussed in this report section warrant prompt attention and action by the Mission to enable accomplishment of program objectives. Prompt action is also warranted to avoid potential embarrassment and adverse publicity to the Mission, the Agency, the GOE and the USG because of substantial commodity diversions from poor and needy Egyptians for whom the program was established and justified. Prompt action is needed to effectively implement Agency regulations and discourage further diversions.

Recommendation No.2

USAID/Egypt in coordination with CRS (a) determine the amount of improperly used P.L. 480, Title II Commodities in the Beheira Governorate; (b) issue a bill-for-collection to the GOE for the value of improperly used commodities; and (c) assure that P.L. 480, Title II assistance to the MCH program in the Beheira Governorate is not reinstated until such time as proper recoveries are realized pursuant to the above bill-for-collection and CRS and USAID/Egypt are reasonably certain the program will function properly.

USAID/Egypt Comments

The Mission did not believe that Recommendation No.2 should be made. USAID/Egypt stated that " ... the recommendation would be better made in terms of assuring that within a certain time period the GOE complete corrective actions called for concerning the diversions of commodities in Beheira Governorate in order to support the integrity of the Title II CRS program."

Response to USAID/Egypt Comments

Mission comments do not address the basic issue of the need to determine and recover the full value of all misused Title II Commodities. Experience has shown that the "integrity" of the CRS Title II program has been left to GOE corrective actions since 1977 with little success; in fact, the GOE has stated in writing that CRS has no valid basis to claim for substantial amounts of misused commodities disclosed in 1977, although serious abuses have been documented. In view of additional, similar abuses disclosed in 1978, this position does not seem to support the "integrity" of the CRS Title II program.

The Mission disagreement with the recommendation appears to be based on the position that formal recovery action should not be implemented. In view of the serious Title II abuses disclosed in the Beheira Governorate, we have retained Recommendation No.2 for implementation.

Actions Subsequent to the Audit

The USAID/Egypt response to the draft report suggested that recent actions taken by the Minister of Health and the Governor of Beheira, and mentioned in CRS comments, be included in the report. These actions were generally taken after completion of our audit field work and even after submission of our draft audit report for Mission comments. Accordingly, we have included recent actions in Appendix A along with an evaluation of their relationship to earlier events and to each other.

Flour Exchange Agreement

AID/W approved a pound-for-pound flour exchange activity for the CRS School Feeding program. But, AID Handbook 9 Chapter 5 Section 5C5 specifically prohibits the use of P.L. 480 Title II Commodities in the manner proposed in CRS' School Feeding Program. Nevertheless, USAID/Egypt recommended this project and it was approved by AID/W.

Under this exchange agreement, CRS receives Title II flour and wheat soya blend (WSB) from AID for use in their School Feeding program. CRS exchanges the Title II flour on a pound-for-pound basis with the GOE for local flour. The local flour and the WSB are provided by the GOE to certain bakeries. These bakeries blend the local flour and the Title II WSB in a ratio of 2:1 (33 1/3% WSB) to make bread which is used in the School Feeding program. The Title II flour is used for purposes decided as desired by the GOE.

AID Handbook 9 Chapter 5 Section 5C1 states "Pursuant to the terms of the regulation, borrowing, transferring, or exchanging commodities may be authorized by the Mission and/or AID/W on a case-by-case basis". However, AID Handbook 9 Chapter 5 Section 5C5 states "Exchange of Commodities for locally-produced or other non-Title II Commodities normally is not desirable. However, exchange for commodities which cannot be made available by USDA may be authorized by AID/W under well-justified circumstances. Consideration is more likely to be favourable if it can be demonstrated that the desired commodities are essential to the success of the project. Each exchange is to meet the requirements of 5C6."

On the basis of Section 5C5 requirements, the only circumstance under which AID/W can approve the exchange of Title II Commodities for flour is when the USDA cannot make flour available. Therefore, since the USDA made Title II flour available, there seems no justification acceptable under the regulations for the exchange of Title II flour for local flour.

AG/IIS field work was not able to determine the authority under which AID identification was being removed from Title II flour bags. PDC/C/FFP^{1/} by letter dated November 17, 1978, answered some AG/IIS questions on this matter. In this letter, they also stated "AID/W is aware of the practice of exchanging Title II flour for local flour. This procedure can be authorized by AID/W on a case-by-case basis (reference A.I.D. Handbook 9, Section 5c (1 and 5), and Section 6b 2(a))."

The referenced sections to Handbook 9 used by PDC/FFP to support AID's approval of the flour exchange contain the section (5C5) which specifically prohibits their approval.

1/ Bureau for Private and Development Cooperation,
Office of Food for Peace

To align this program with the requirements of AID regulations, the practice of exchanging P.L. 480 Title II flour for local flour should be terminated.

Recommendation No.3

AID/W (AA/PDC) in coordination with USAID/Egypt and CRS immediately terminate the practice of exchanging Title II flour for local flour.

USAID/Egypt Comments

"We think that the exchange of Title II flour for local flour was correctly approved by the Mission and by AID/W since local flour is what is needed to make "balady bread" and that is the food item that is most likely to be acceptable in the school feeding program. Therefore, we do not agree with Recommendation No.3 ... "

Response to USAID/Egypt Comments

Mission comments are limited to opinion but make no reference to compliance with Agency regulations, cited in the audit report. We could locate no evidence at the Mission of the justifications required by AID HB 9, Chapter 5, Section 5C5; nor could we locate any evidence at the Mission that relative values of commodities had been established pursuant to HB 9, Chapter 5, Section 5C6 requirements.

We found no documentation in the Mission files to show that the USAID had reviewed any differences between Title II flour and local flour. Nor could we establish that the Mission has ever considered whether Title II flour was not acceptable. We found no evidence that the Mission had demonstrated local flour to be essential to the success of this project.

As discussed earlier in this section, "local" flour is mixed with a substantial percentage of Title II WSB (2:1 or 33 1/3% WSB) to produce a mixture from which "bread" is made. This "bread" is not "balady bread" as referred to in USAID comments or as prepared by the Egyptian people because of the substantial 33 1/3% Title II WSB component of the flour. The "bread" prepared from the mixture of one-third WSB is of a type previously unknown in Egypt; i.e., it is considerably different in color, texture, taste, and moisture content from the Egyptian "balady bread". Regarding the acceptability of the product provided, our field work showed that school-children in many areas actually throw away a good portion of this "bread" provided. During our field work, we also received unsolicited comments from several school principals that, if CRS changed the school snack from "balady bread" and other foods to "feteere", the lunch would be much more acceptable to the children. "Feteere" is made from white flour. In fact, in Port Said and surrounding areas, "bread" provided the school-children is "feteere" made from white flour, not the local flour used elsewhere in this program. (Title II flour is white flour.)

Since this commodity exchange activity is not in line with AID regulations, and, the need in this program for "local flour" seems questionable, we have retained the recommendation.

Assistance to the school lunch feeding program should be possible without exchanging flours under the current circumstances; e.g., either a direct contribution of (1) Title II flour to the school feeding program, or (2) wheat to be milled into flour locally to any desired texture for making "balady bread" for use in the program. Either alternative suggested would eliminate "windfalls" and comply with Agency regulations.

Although implementation of Recommendation No.3 will eliminate most of the other areas of concern about this project, we believe it is prudent to discuss some of these other areas. Normally, AID regulations are well thought out and based on considerable experience. The regulations are then written to try to prevent certain known problems with a specific kind or type of activity. In our opinion, HB 9 Chapter 5 Section 5C5, and related requirements, is one of those regulations which, when followed, prevent AID from becoming involved in the following kinds of situations.

HB 9 Chapter 5 Section 5C5 requires in part that "Each exchange is to meet the requirements of 5C6."

Section 5C6c (1) states "When commodities are to replace non-Title II commodities, the relative values of the commodities borrowed or exchanged are to be established by qualified independent appraisal. The relative values are to be mutually agreed upon by the Mission and the cooperating sponsor."

We found no evidence at USAID/Egypt or CRS that the relative values of the commodities exchanged were established by qualified independent appraisal.

Section 5C6c (2) states "The replacement arrangements must provide for delivery to the project of commodities equal in value to those provided by the United States; and the prices established must be fair to both parties without "windfall" benefits to either. Generally, the pricing formula should be based on the most favourable value at the place of exchange."

There is a considerable difference in the value (cost) of Title II flour and local flour. The GOE is, to some extent, reaping a "windfall" benefit in two ways from the pound-for-pound exchange: (1) the cost to the United States Government for a metric ton of P.L. 480, Title II flour delivered to Egypt is \$156 for the flour plus about \$39 for freight or a total of \$195. The cost to the Egyptian Government for a metric ton of local flour is about \$70. The difference of \$125 per metric ton is a "windfall" benefit to the Egyptian Government. The 1978 AER authorized 19,800 metric tons of flour for the School Feeding program. This amount generates a \$2,475,000 "windfall" benefit in relative cost to the GOE; (2) the GOE subsidizes the cost of balady bread. Approximately 80 percent of the bread produced and eaten in Egypt is this type of bread. The GOE pays about 70 percent of the cost of balady bread and controls the selling price. The selling price is fixed at .5 piastres (100 piastres = L.E.1). The remaining Egyptian produced breads, approximately 20 percent of the total, are called shami or phino. These types of bread are made from white flour - most of which is imported. Almost all of this bread is consumed in Alexandria and

Cairo. The selling price is fixed at 1 piastre a loaf. The cost of these breads are not subsidized. GOE officials told us that all of the Title II flour was processed through government bakeries. Therefore, the selling price of the white breads made from Title II flour is basically 100 percent profit to the GOE. This amounts to about \$2,000,000 free income for the GOE from the 1978 Title II allotment of flour (19,800 tons) for the School Feeding Exchange program.

Based on the above facts, it does not appear that AID is receiving equal value from the flour exchange process. On the other hand, the GOE may be accruing significant "windfall" benefits.

USAID/Egypt Comments

"We do not find that the exchange of imported Title II flour for local flour resulted in a 'windfall' for the GOE ... First, the relatively low 'price' of local flour is a subsidized one which is part of a complicated system of controls on the prices of inputs and products, and thus cannot be used as a test of the 'real' value of the commodity for exchange purposes. Second, the GOE contributes far more to the cost of the Title II program than the value of the imported Title II flour and wheat even subtracting the theoretical difference in value between the imported flour and the subsidized price of domestically produced flour. We might also observe that the WFP also uses the exchange system without any concern for any supposed 'windfalls' to the GOE."

Response to USAID/Egypt Comments

The audit report has not used the relatively low "price" of subsidized local flour as a test of the real value, as indicated in Mission comments. Rather, audit report figures are based on comparative figures, i.e., the total cost to the GOE for the local flour, as compared with the total cost of Title II flour furnished by the U.S.G. This comparison is based on AID HB 9, Chapter 5, Section 5C6c (2), equal value requirements proscribing windfall benefits.

We found no evidence that the USAID/Egypt established prices of the two commodities to assure that Section 5C6c (2) requirements were met and no windfall benefits accrued.

Managers of different agencies and firms work under different constraints with objectives tailored to the needs of their separate organizations. For example, WFP management is not required to follow AID regulations. While use of exchange commodities may be routine to WFP without concern for GOE windfalls, AID regulations establish the use of exchange commodities as an exception to routine, with case-by-case justifications and specific requirements that include concerns over windfalls.

Events Subsequent to Audit

USAID/Egypt suggested "that the discussion of the actions taken in response to the diversion of commodities include those recent actions taken by the Minister of Health and the Governor of Beheira mentioned in CRS comments."

Accordingly, recent actions taken by the Minister of Health and the Governor of Beheira are presented and discussed below, including their relationship to earlier events and to each other. Some of the most meaningful actions were taken after completion of our audit field work and even after submission of our draft audit report for comments.

CRS comments pointed out that

"The Minister of Health himself removed...from the position as General Supervisor of Distribution for the CRS/MOH P.L. 480 Title II feeding projects. H.E. Minister Gabr also removed ... as Chief Representative of the Ministry of Health on the Inter-Ministerial Committee for Foreign Voluntary Assistance, IMC. The IMC under the terms of the Basic Agreement is the counterpart that represents the Egyptian Government for CRS programs." (On March 20, 1979, Dr. Lutfy El Sayed was appointed to both of these positions.)

Also,

"The former Director-General of Public Health in the Governorate of Beheira is no longer in that post or indeed in Egypt." (Not yet replaced.)

CRS comments also stated:

"The new Minister of Health, Dr. Mamdouh Gabr, was appointed in October and it was only in January that CRS discussed with him the problem of the Beheira Governorate. It is true that during that 11 January meeting he asked for two months to investigate the problem. It is also true that he promised to initiate corrective action. The Minister did visit the Governorate in the last week of February. He is out of country and we are scheduled to meet him upon his return."

These latter CRS comments appear inconsistent with documents reviewed during the audit; e.g., according to earlier CRS documents, at the January 11, 1979 meeting, the new Minister of Health stated: "I want two months to investigate the problem of Beheira and other governorates." He also stated that he would designate a new project officer with responsibility for the feeding program nationwide. "The new project officer and I will go to Beheira to solve by January end, the difficulties in that governorate." (Underscoring added.)

The Minister, as pointed out in later CRS comments, did not visit the Governorate until "... the last week of February." In other CRS communications, the Minister's visit was placed as March 1, 1979.

On March 12, 1979, after the Minister's visit to the Beheira Governorate, the USAID Director had a brief meeting with him. The USAID Director stated:

"The Minister did confirm that he discussed this matter (CRS Beheira Program) with the Governor. The Governor has presumably assured that any renewed program would be handled in a correct way and that different people would be involved in its administration. Whether, however, anything will happen with respect to past actions is not altogether clear." (Underscoring added.)

CRS comments also included meaningful actions promised by the Beheira Governor in late March 1979:

"At the conclusion of a meeting on March 26, 1979, with H.E. the Governor of Beheira, Governor Hussein Dabbous recognized the seriousness of the previous mismanagement and indicated to us that within two or three days he would remove all the 'bad elements' employed directly or indirectly on the supervision of the CRS feeding program in the governorate."

Again, for better perspective, more details of the March 26, 1979 meeting should be reviewed here. USAID and CRS representatives traveled to Beheira on March 26, 1979. The purpose of the trip was "... to brief the Governor on the diversion of Title II Commodities in Beheira Governorate and ascertain what actions he is prepared to take to rectify the situation." The meeting was held the night of March 26, 1979. It was close to a month after the new Minister of Health had already discussed the matter with the Governor. Excerpts from USAID records of this meeting follow:

"We arrived at 8 o'clock p.m. and were immediately shown into the Governor's office. (CRS) proceeded to detail the situation for him, beginning with August 1977, when (CRS) had discovered that there appeared to be diversions of commodities to unauthorized uses, continuing with actions taken by the Ministry of Health and the Prime Minister's investigation unit and the report from the MOH that there had been no 'legal discrepancy'. We reported

on our meeting with the new Minister of Health on January 11 when he had promised to visit Governor Hussein Dabbous and investigate the situation with him. We brought the Governor up to date, told him about the termination of the program in Beheira when it was discovered in December 1978, that the same abuses were occurring and informed him of the desire of the AID auditors to visit the governorate." (Underscoring added.)

"The Governor said that the Minister of Health had discussed with him that it was necessary to ensure that the program was run properly from now on. He indicated that the Minister had not informed him about the abuses discovered in 1977." (Underscoring added.)

"The Governor agreed that there was evidence that there had been diversion of commodities.***. He reiterated that he had not been aware that there had been substantial misuse until the briefing this evening. (March 26, 1979)." (Underscoring added.)

"(CRS) and I (USAID Representative) raised the subject of the audit and asked the Governor whether he would be agreeable to the AID auditors visiting the Governorate to review the problem." (Underscoring added.)

For added perspective, the audit and draft report had been completed in early March and Mission comments for incorporation into the final report were requested by March 27, 1979.

While some of these recent actions have been positive and directed towards correcting some program problems, others are questionable from the standpoints of effectiveness and timeliness. For example, the Mission and CRS placed great reliance on the prompt actions to be taken by the "new" Minister of Health in visiting the Beheira Governor and resolving the problems; but, after a somewhat "delayed" visit to the governorate, it appears that the Minister did not fully discuss the matter -- USAID and CRS found it necessary to travel to Beheira as late as March 26, 1979, to "brief" the Governor although the "new" Minister supposedly did so back in February. In response to the Governor's expressed lack of knowledge regarding commodity misuses after the Minister's prior visit, USAID and CRS representatives told the Governor that " ... we felt that the Minister himself may not be fully aware of these as he is new in office ... " This situation is confusing since Mission-CRS records of the January 11, 1979 meeting indicate the Minister was fully aware of the commodity misuses; in fact, at this meeting the Minister promised to initiate corrective actions and resolve the Beheira difficulties after investigating the situations surfaced by CRS. Also of significance here, the USAID and CRS found it necessary, as late as March 26, 1979, to ask whether the Governor "would be agreeable" to a field visit by the AID auditors -- such request for GOE agreement to a field trip by the AID auditors at such late date, (after completion of the draft report and after USAID/CRS comments were to be incorporated into a final report) would suggest opposition to an earlier audit field investigation, as planned and scheduled by the AAG/E. It is not clear why the late meeting of March 26, 1979, was necessary when viewed in the light of previous actions cited by USAID/Egypt that were to have resulted in prompt corrective measures on the Beheira situation.

REPORT RECIPIENTSUSAID/Egypt

Director	5
Inspections and Investigations Staff (IIS)	1

AID/Washington

Auditor General	1
Auditor General, Executive Management Services (AG/EMS)	12
Auditor General, Programs, Plans and Policies (AG/PPP)	1
AAG/Africa (East)	1
AAG/Africa (West)	1
AAG/East Asia	1
AAG/Latin America	1
AAG/Near East	1
AAG/Washington	1
Deputy Administrator	1
Assistant Administrator/Near East (AA/NE)	1
Office of Middle East Affairs (NE/ME) (Egypt Desk)	1
Bureau for Near East (NE)	1
Office of Development Support (Development Information and Utilization) (DS/DIU)	4
Assistant Administrator/Bureau for Private and Development Cooperation	1
Bureau for Private and Development Cooperation Office of Food for Peace (PDC/FFP)	5
Bureau for Private and Development Cooperation Office of Private and Voluntary Cooperation (PDC/PVC) ²	5