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UNITED STATES OF AMERICA

Auditor General

AUDIT REPORT

ON

CATHOLIC RELIEF SERVICES

PL 480, TITLE II PROGRAM

IN

INDIA

Audit Report Number 5-386-79-7

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Area Auditor General Near East
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INTRODUCTION

The objectives of the PL 480 Title II gift food commodity programs are to: (a) meet famine or other urgent or extraordinary relief requirements; (b) combat mal nutrition, especially in children; (c) provide economic and community development in friendly developing areas; and (d) provide food for poor and needy persons outside the United States.

Catholic Relief Services (CRS) is one of the four U.S. registered non-profit voluntary agencies distributing PL 480, Title II commodities in India. CRS distributes these commodities under the Indo-U.S. agreement, as amended. Under this agreement, the Government of India (GOI) provides duty free entry for the commodities and is responsible for their clearance, storage and transportation to the consignees. The GOI has assigned this responsibility to the Food Corporation of India (FCI), whose primary task is the procurement, storage and movement of commodities for the public distribution system. FCI transports the Title II commodities on the basis of instructions issued by CRS from time to time.

The Title II program costs are shared between various agencies as follows:

Cost Component	Name of Agency Which Bears the Cost
(a) Cost of commodities, packing, handling and freight from the U.S. port to the receiving port	U.S. Government

Cost Component	Name of Agency Which Bears the Cost
(b) Cost of handling and storage at the receiving port, and transportation from port to the consignee destination	Government of India
(c) Transportation cost from consignee to distribution center	Consignee/Distributor
(d) Cost of administering the program in India	CRS
(e) Cost of storage at the distribution point	Consignee/Distributors through donations and sale of empty containers

CRS operates its program almost exclusively through the indigenous Indian Catholic Church heirarchy. Some programs are also channeled through various private and quasi-government agencies. Presently, the CRS distribution system is functioning through a network of about 300 consignees and 6,000 distributors located all over the country. During FY 1978, CRS's approved program provided for the distribution of about 161,000 MT of commodities, valued at approximately $32.6 million to 1.6 million beneficiaries as follows:

Program Category	No. of Beneficiaries (000)	Quantity (MT) (000)
FFW	600	97,788
MCH	416	30,338
School Feeding	412	15,368
Other Child Feeding	100	7,772
Individual Health Cases	98	9,809
	1,626	161,075

CRS administers its program through six zonal offices located in Bombay, Calcutta, Madras, New Delhi, Bangalore and Cochin. Each zonal office is responsible for program planning and implementation, supervision, surveillance and commodity accountability. CRS Headquarters in India, located in New Delhi, is primarily responsible for providing policy guidance and directives, reviewing the performance of each zone, and conducting internal reviews of the CRS program.

BEST AVAILABLE DOCUMENT

The purpose of our audit was to determine if the program was conducted in accordance with applicable AID regulations and whether CRS's overall management of the program was effective. The audit was performed between August and December 1978. It primarily covered the CRS program operations relating to FY 1978. Coverage was, however, extended to earlier periods wherever it was deemed necessary.

SUMMARY

CRS has made improvement in its operations since our last audit. There are, however, still several areas which need corrective action.

The most significant of our findings developed during the audit, and presented in detail in the next section, are summarized below:

- CRS's internal reviews and the report furnished to USAID/India omitted coverage of several significant areas. Consequently, the reviews did not adequately serve their purpose. (See p. 6). USAID/India inordinately delayed communicating its observations to CRS. Even then not all the shortcomings observed in the report were highlighted. (See p. 9).

- Our limited field visits and review of USAID/India's reports disclosed that Title II commodities were also being consumed by ineligible beneficiaries. (See p. 11)

- CRS does not have information as to whether the charges to beneficiaries for transportation and administrative costs meet the criteria of AID regulations or whether funds thus realized are being used for authorized purposes. (See p. 13)

- CRS's overall administration of the FFW program has been weak because of CRS failure to ensure compliance with its procedures, and the weaknesses in its existing system of project approvals and commodity allocations. (See p. 16).

- CRS is not reporting losses promptly at the time of discovery. Also, CRS did not report a number of claim settlements which were collected and entered on its records. (See p. 23).

- USAID/India has been procuring containers for reconstitution of damaged Title II commodities with U.S. Government funds. Funds generated by, and available with, the voluntary agencies from the sale of empty containers could be used for this purpose, thereby resulting in significant savings to the U.S. Government.(See p. 29).

- AID regulations do not contain any instructions regarding the sale of by-products and the use of funds so generated. (See p. 31).

The report contains 13 recommendations which are listed in Exhibit A.

STATEMENT OF FINDINGS AND RECOMMENDATIONS

A. INTERNAL REVIEWS

1. Internal Reviews by CRS

CRS has made progress in improving the manner in which it conducts internal reviews, as compared to the situation found in our last audit of CRS's program (Audit Report No. 8-386-76-13, 11/17/75).

We still found weaknesses, however, such as significant omissions in the coverage of program aspects in these internal reviews. Consequently, the reviews do not adequately fulfill the monitoring and reporting obligations imposed on CRS under AID Regulation 11, Sections 211.5(c) and 211.10(b)(4).

AID Regulation 11, Section 211.5(c) requires that the "voluntary agencies shall conduct or arrange to have conducted comprehensive internal reviews or a series of examinations which, when combined, will represent a complete review of Title II program(s) under their jurisdiction." Section 211.10(b)(4) states that the purpose of the comprehensive internal review is to enable USAID "to assess and to make recommendations as to the ability of the cooperating sponsors to effectively plan, manage, control and evaluate the Food for Peace programs under their administration."

Accordingly, in September 1977, USAID circularized instructions to all voluntary agencies, including CRS, specifying the scope of internal reviews, the period to be covered and the deadline for submission of the reports. Although CRS furnished its report before the specified date, it did not fully comply with instructions pertaining to the period to be covered or the program areas to be reviewed.

CRS's Comprehensive Internal Report was prepared on the basis of six reports on internal self reviews of its zonal offices. We selectively reviewed CRS's internal review procedures, the six zonal reports, and the report submitted to USAID. We noted significant weaknesses on the basis of which we believe that the Comprehensive Internal Report furnished to USAID was not adequate to serve the purpose stated in Section 211.10(b)(4). We noted that:

(a) The Report did not cover several important program segments such as the operation of the MCH, School Feeding, Other Child Feeding and Institution Health Cases programs; eligibility of beneficiaries/projects; publicity, etc. USAID's circularized instructions on the internal reviews required the coverage of these aspects.

(b) The Report did not generally indicate whether the CRS program was in compliance with Title II regulations. Rather, it furnished information on CRS procedures and their compliance by the zonal offices. Also, the Report did not clearly bring out the problems observed, nor their extent.

(c) Neither the six zonal reports nor the Report furnished to USAID contained recommendations for corrective action on deficiencies disclosed by the internal reviews. Consequently, no follow up control was maintained to clear deficiencies. CRS informed us that the deficiencies, if important, would be looked into again as a matter of course during the next review of that zone.

We believe two factors have caused the above weaknesses:

(a) CRS felt that the internal reviews were meant for its own internal purposes. Accordingly, CRS designed them to meet its internal requirements. However, as stated above, these are also required by USAID to evaluate the CRS program.

(b) CRS lacked formal guidelines or a manual of procedures which could be used by its internal reviewers while making reviews of various zonal offices. This lack of guidelines resulted in incomplete internal reviews and the consequent overall incomplete comprehensive report. We also noted that CRS's assignment instructions showed that rather narrow and selective areas were being probed by its internal reviewers. We believe guidelines should be developed that would safeguard CRS's own internal review requirements as well as fulfill the intent of AID regulations.

CRS officials showed us a draft copy of "Self Audit Guidelines" developed in 1976. They informed us, however, that these were considered inappropriate and too lengthy to be put to use. CRS also

felt its current internal review staff was made up of experienced personnel who could function without the need of formal guidelines.

We recognize the current CRS staff may be experienced and capable. Nevertheless, we believe their efficiency and effectiveness would be enhanced if written instructions, which would cover both CRS and AID requirements, were developed for their use. This would be mutually beneficial and, if adequately prepared, the type of omissions in the past reports could be rectified. The CRS official responsible agreed and informed us that the guidelines prepared in 1976 would be revised to conform with the requirements of USAID regulations.

Recommendation No. 1

We recommend that USAID/India require CRS to develop and implement internal review guidelines which will insure compliance with the requirement of AID Regulation 11, Section 211.5(c) regarding "a complete review of the Title II program(s)" under CRS's jurisdiction. USAID/India should review the guidelines that CRS develops and make a determination of their adequacy.

CRS Comments

Commenting on our observations, CRS stated:

(a) Its internal reviews and field visits have been covering, in general, the areas we say are not covered.

(b) Its procedures are based on Title II regulations. Also, most of the corrective action is taken on the spot and hence there was little use in repeating it in the comprehensive report. In that report, CRS generalized the findings for each zone according to the check conducted under various headings.

(c) At the end of each zonal review general recommendations/suggestions and conclusions follow. CRS manuals have been used as the self-review guidelines and procedures. Also, CRS has now formulated self-review guidelines which will be used beginning January 1979.

Auditor's Response

We are only saying that the comprehensive report submitted to USAID/India did not cover all the areas required. Since all internal review and field visit reports are not required to be sent to USAID/India, all the areas should have been covered in the comprehensive report. Such incomplete reporting and listing of generalized findings are not sufficient for USAID/India to adequately assess CRS's program. In view of this, we consider our findings valid and are, therefore, retaining the recommendation.

2. USAID/India's Appraisal of CRS's Comprehensive Internal Report

USAID/India took over seven months to communicate its observations on the Comprehensive Internal Report prepared by CRS. CRS had submitted its Comprehensive Report to USAID/India in March 1978. USAID/India staffed this report for review and as of April 10, 1978, had generated rather lengthy comments. Their review pointed out many shortcomings in the report. In addition, it also cited 10 specific areas which CRS had not covered although required by USAID/India's circularized instructions.

During our review in October 1978, we found that USAID/India had not, until then, communicated its observations to CRS. USAID/India subsequently did this by a letter dated October 27, 1978, after we brought the matter to their attention. We noted, however, that even then USAID/India did not adequately address the issue. Their letter only pointed out the 10 areas which CRS had not covered, but not the other shortcomings observed in the Report. USAID/India also asked CRS to make a statement to the effect that the Report, in its best judgement, was a comprehensive review of the entire program for the period covered.

We believe solicitation of such generalized statements from CRS serves no useful purpose and is also contrary to the intent of AID regulations. It is USAID's responsibility to make a determination whether the internal reviews and reports are sufficient to enable it to "assess and to make recommendations as to the ability of the cooperating sponsors to effectively plan, manage, control and evaluate" the program (Sec. 211.10(b)(4), AID Reg. 11).

USAID/India should have mentioned the specific operational problems identified in the CRS Report and requested information on corrective actions taken. Moreover, to be meaningful, USAID/India should have communicated such critical comments on a timely basis. CRS conducts internal reviews throughout the year and their results are combined for the preparation of the comprehensive report for USAID/India. Therefore, timely communication of critical comments would enable CRS to correct the deficiencies or address them in its future reviews and reporting.

In commenting on our draft audit report, USAID/India informed us that it has now formalized a procedure to insure adequate appraisal of voluntary agencies' reports. USAID/India's comments on the reports will be communicated to the concerned voluntary agency within 60 days. Accordingly, we have deleted our draft report recommendation on this subject.

B. SURVEILLANCE

1. Ineligible Beneficiaries

Our limited field visits and review of USAID/India's field visit reports disclosed that Title II commodities were also being consumed by ineligible beneficiaries. We also observed lack of details about beneficiaries. Our review indicated a need for both CRS and USAID/India to gear up their field review procedures to address these important elements of the program.

We visited five distributors serviced by two consignees under the CRS/Bombay Zone for a review of the School Feeding (SF) programs. Beneficiaries at 4 of these distributors included high school children in the 15 to 17 age group. According to AID regulations, the eligible beneficiaries under SF programs are primary school children in the 6 to 14 years age group. We found no evidence to indicate that CRS and USAID looked into this area during their field reviews.

We also visited three distributors serviced by the same two consignees for a review of MCH programs. We found one distributor (Convent, Umreth) did not maintain any details as to age, weight, etc. of the beneficiaries; hence we could not ascertain their eligibility. Moreover, the register maintained by this distributor since August 1978 for beneficiaries' names showed only 63 beneficiaries against the approved 100. One other distributor (Our Lady of Pillar Hospital, Baroda) had incomplete details of the beneficiaries. Against the reported 500 beneficiaries served, the distributor had details of only 122.

We could neither observe the distribution nor interview the MCH beneficiaries since distributions are carried out once or twice a month, and there was no distribution on the date of our visit. The distributions are made in bulk form for home consumption, and we found no evidence of any follow-up controls to ensure that the commodities were consumed by the targeted groups, that is, pregnant and lactating mothers and infants up to the age of 6 years. However, our review of USAID/India's field visit reports during FY 78 indicated that MCH feeding was not limited to the target group in the case of 8 of the 12 distributors visited. The beneficiaries interviewed by USAID/India's personnel stated that the commodities had been consumed in four to five days since other family members also shared the food. The food was originally given for a two week or a month's consumption for one or two beneficiaries of the family. We noted that USAID/India had not highlighted this weakness

as a deficiency in the program even though this was in violation of AID regulations. We were informed by a USAID/India official, who recently returned from a field review, that the problem of ineligible beneficiaries was observed by him also.

We cannot comment on the extent of consumption of Title II commodities by ineligible persons due to our limited field coverage and the lack of specific information in this regard in CRS's end-use reports. Our observations, however, do indicate the need for a review of this important program element, especially in the case of MCH programs in view of AID's increasing emphasis on nutrition and the commodities reaching target groups.

Recommendation No. 2

We recommend that USAID/India require CRS to (a) visit a representative sample (say 5 percent) of its feeding centers as a part of its regular end-use program during March to May 1979, and specifically determine if Title II commodities are being consumed by ineligible persons and the extent thereof; and (b) submit a report on its findings and the corrective actions planned. To the extent possible, USAID/India personnel should actively participate in the review.

CRS and USAID/India's Comments

CRS commented that the size of our audit sample was comparatively smaller than the reviews conducted by USAID/India's staff. USAID/India's reviews had found no instance of feeding ineligible beneficiaries. CRS felt that our conclusion, therefore, conflicted with that of USAID/India's.

USAID/India stated that the possibility of commodity consumption by other family members can be kept to a minimum mainly through nutritional education which CRS is already attempting at a reasonable level. USAID/India further stated that it is an established procedure for its staff to look into this area during field visits. USAID/India felt that the recommendation should be dropped since implementation action already exists and as CRS has asked its zonal offices to report any violations to the headquarters.

Auditor's Response

We feel that CRS's argument about the audit sample being smaller than USAID/India's is not valid. USAID/India's larger sample does not necessarily mean that its reviews adequately focussed on the issue of consumption of commodities by ineligible persons. Our view is supported by the fact that, as mentioned previously, USAID/India had not highlighted this observation as a deficiency in its reports. Moreover, we observed the problem of ineligible beneficiaries or lack of beneficiary details at six of the eight centers visited by us. The consumption of commodities by ineligible persons was noted by us in the case of 8 of 12 MCH distributors visited by USAID/India (See page 11). We believe, therefore, that a review of this area is necessary and have retained our recommendation with appropriate modification.

2. Charges to Beneficiaries

Our review of project applications for FFW programs showed that transportation and administrative costs were being paid by beneficiaries (explained by CRS as people benefitting from the project but not the workers). Also, CRS/Delhi Zone and USAID/India field reports disclosed that charges to beneficiaries were generally being levied by distributors under MCH and, in a few cases, under SF programs. During our field visit to Bombay, we also found a consignee (No. 0049) was charging Rs. 5.00 per bag of wheat from FFW project holders.

In none of these cases observed or disclosed in field reports did we find any indication as to the beneficiaries ability to pay. In addition, no records were being maintained for these collections nor the uses made thereof.

Section 211.5(i) of AID Regulation 11 permits charges to be made in MCH, SF and OCF programs on the basis of ability to pay, but no mention is made regarding FFW programs. Our point stressing the lack of maintaining collection records and how the funds are used is made because Section 211.5(i) also states that funds from these sources shall be used for payment of program costs such as transportation, storage, etc. and other program expenses specifically authorized by

AID to carry out the objectives of the program for which the commodities were furnished. However, such funds may not be used to purchase land for sectarian purposes, to acquire or construct church buildings, or to make alterations in existing church-owned buildings.

As mentioned above, CRS does not know if the charges being made are permissible or whether funds realized from these collections are being utilized for authorized purposes.

Recommendation No. 3

We recommend that USAID/India (a) require CRS to make a review to determine if charges being made from beneficiaries for FFW and other feeding programs meet the criteria of AID regulations, and (b) require collection and expenditure records to be maintained to ensure that funds are used for payment of program costs.

CRS and USAID/India's Comments

CRS acknowledged that a minimum amount was charged for transportation, handling and administration, but its response did not state whether the charge was based on the recipients' ability to pay. In the case of FFW, CRS reiterated that the charges were not collected from the workers but from project-owners or the community. Consequently, it felt that the FFW charges should not be linked with the food as is done by us for consignee No. 91-0049. CRS also stated that its zonal offices are aware and have been reminded about maintenance of records for such collections. Confirmations from the zones have been received in this respect.

USAID/India commented that it has no reason to protest the minimal charges in the case of MCH or SF, where they are based on the recipients' ability to pay as permitted by AID Regulation 11. It did not comment on the FFW charges but merely repeated CRS's comments. Regarding the maintenance of records, USAID/India commented that its personnel will review this in future visits and requested that the recommendation be deleted from the final report.

Auditor's Response

We have not asked USAID/India to protest the levy of charges but to review whether they meet the criteria of AID regulations. As stated above, we were unable to do this because of lack of information at CRS. Neither CRS's nor USAID/India's response adequately addresses this matter. Moreover, CRS's contention that the charges in FFW program should not be linked with the food is questionable. In our opinion, there is a definite linkage since the projects are implemented with the food and their owners pay the charges in recognition thereof. Regarding the accounting for such charges, the responses do not show that the records have in fact been started. Accordingly, we continue to believe our recommendation is necessary and have retained it.

C. FOOD FOR WORK (FFW) PROGRAM

CRS has made progress in improving its procedures for administration of the FFW program as compared to the situation found in our last audit (Audit Report No. 8-386-76-13 dated November 17, 1975). There are still weaknesses, however, which require corrective action to ensure effective and authorized use of Title II commodities.

The most notable improvement made by CRS is the adoption of procedures whereby identification numbers are assigned to projects and individual progress/completion reports are required for the projects. CRS has also developed a comprehensive manual of procedures for the consignees. These actions do provide a basis for better control over the FFW program. However, CRS has not adequately enforced some of these procedures. As a result of this, and partly due to its present system of project approvals and commodity allocations, the overall administration of the program has been weak.

Our observations based on a selective review of the FFW program at the two zonal offices visited are detailed below:

(a) Nearly all of the projects approved involved work on privately-owned land, with the benefits accruing to the individuals rather than the community. These projects involved activities such as paddy transplanting, weeding, land leveling, well deepening/cleaning, well construction and low cost housing. Applicable AID regulations require that projects emphasize public rather than private benefit. Any proposals deviating from this purpose are required to include a delineation and full explanation of significant corollary public benefits. None of these projects on private property were supported with such an explanation.

(b) Projects were being approved on a quarterly basis without the completion of those approved earlier. The existing procedures of commodity allocation and project control were, however, not adequate for such a system of approval.

Under the existing procedure, each consignee is assigned a specified number of mandays for a fiscal year. The consignee submits, and CRS approves, projects

on a quarterly basis. These approvals are made regardless of commodity availability or expected arrivals. Commodity allocations for individual projects are approved for a quarter. The total quantity so allocated is dispatched to the consignee, subject to the availability of commodities. The dispatches are made without considering the status of projects approved earlier or the existing stocks. This procedure does not always ensure efficient utilization of the commodities. The following examples illustrate this point.

We found instances where a project was completed in March 1978 with wheat dispatched in November 1977, yet oil was dispatched and shown as used in May 1978 in that completed project (No. 78/1/A-5/4); unapproved activities were reportedly implemented with excess food; and more than the approved allocation of food was utilized for projects without CRS approval (No. A-6-34 where reportedly 78,585 kgs. of wheat and 3,144 kgs. of oil were used against 32,837 kgs. and 1202 kgs., respectively, approved).

We also found instances where consignees were dispatched commodities in excess of their approved allocations.

Because of incomplete control records and irregular submission of progress/completion reports (See (c) and (d) below), we could not generally determine whether, or how, these excess allocations were used. In one instance, however, we found apparent indications of improper utilization. This instance related to Project No. B-5-3 where the consignee (No. 036) received 22,134 kgs. of wheat against the approved quantity of 11,069 kgs. The consignee reported completion of the project, which involved construction of 24 houses, in April 1978 with 11,068 kgs. of wheat. Yet, when a CRS field representative visited the consignee in August 1978 and found there was no balance, the consignee stated

that the entire quantity of 22,134 kgs. of wheat was used on the project. CRS subsequently wrote to the consignee about this on October 30, 1978. The consignee furnished a report in November 1978 from the project holders showing that the remaining quantity of wheat was used for constructing another 24 houses.

(c) Consingees were not reporting on the progress of the projects regularly and CRS follow-up procedures were lacking in these areas.

We found several instances where no reports had been received as of the date of our review in November 1978, although CRS records showed the projects had started in February/March 1978. These projects were planned to be completed in three months, and in some cases the stock reports showed that the commodities had been used. In one instance, no progress report had been received for a project started as early as June 1976. Another 24 projects relating to FY 1977 were still carried as ongoing activities in the Bombay and Delhi zonal reports as of September 30, 1978, apparently due to non-receipt of the progress reports from the consignees.

(d) Although CRS has maintained control records for approved projects, these were incomplete and not up to date. For example, in the case of Bombay zone, the control record showed that out of the 1048 projects approved during FY 1978, only 424 were completed and 42 were cancelled or abandoned. The control record did not show the status of the remaining 582 projects. Moreover, the quarterly summary report, which the zonal office furnishes to CRS headquarters, showed that only 470 projects were incomplete as of September 30, 1978. Obviously, either the quarterly report or the control record was incorrect. Similarly, the control record of the Delhi zone was also incomplete and incorrect.

The control record has no provision to show the quantity actually dispatched against that allocated for a

project. Consequently, in cases where the control record showed lower commodity utilization, it could not be determined whether that was due to a lesser quantity dispatched or the project was completed with less food. If the latter, the control record does not show how the excess food was adjusted, if at all, against future project approvals.

Many projects were approved but were abandoned after using some limited quantities compared to allocations. Also, many projects were cancelled. From the control record it could not be determined whether food was dispatched for such projects and in what quantity, or how it was used.

(e) CRS has prescribed standards to be used for estimating manday requirements for projects involving simple earth work. For projects involving more than simple earch work, technical details are to be submitted along with the proposal. We found instances where these procedures were not followed. For example, CRS had approved projects which did not show details of simple earth work and did not use the prescribed standards to calculate the mandays requirement; and where more than simple earth work was involved, the required technical details from an engineer were not furnished.

We also noted significant variations in mandays approved for projects involving identical nature and scope of work. CRS files did not contain any explanations for such variations. This observation, which largely applied to the Delhi zone, indicated that the propriety of manday requirements was not being reviewed.

(f) Project applications in many cases did not contain details regarding the names of project owners (the persons on whose land FFW projects were implemented) or the specific number of activities, such as houses, land leveling and wells, to be performed in a village. For example, consignee 0080 of Bombay and 0052 of Delhi.

In conclusion, we believe stricter enforcement of its procedures by CRS and appropriate modifications in the existing project approval and commodity allocation system can rectify the type of conditions reported above.

Commenting on our observations, CRS stated that:

(a) There are obvious corollary public benefits in the FFW projects CRS supports on private land. Such projects help people who, even though owning land, are not able otherwise to rise above the grinding poverty level to support their families. If a farmer cannot scratch out a living on barren or uncultivable land, he is no better off than a landless labourer or unemployed worker. He, therefore, is a public liability and heavy burden as he is unable to be part of a country's productive economy. The FFW projects make them productive members of the society. Consequently, there is an obvious benefit to the public or country at large. CRS does implement many FFW projects on public lands, such as road construction, tanks, etc. In cases where the activity is taken up for private benefit, the consignee ensures that proper justification and explanation is present.

(b) Occasions when lesser quantities are despatched to consignees are not frequent and are due to short landing or less number of bags in a wagon. In such cases the consignee has the discretion to allot food received to projects which he considers of higher priority or reduce the scope of projects and allot less food to some than approved. These deviations cannot be included in the control record till receipt of the quarterly progress reports. Reasons for lesser commodity utilization can also be verified from progress reports. Similarly, where projects are cancelled for non-receipt of food or abandoned after utilization of limited quantities of food, the fact can be verified from the progress report. The control record not only indicates a project as cancelled or abandoned but also indicates the quantity of food utilized, if any.

(c) CRS does not and cannot make allocations for projects on the basis of project progress/implementation. Allocations are made on the basis of food arrivals in the country. Stock balances are taken into consideration. when it is known through monthly reports that stock balances are high or project progress/implementation is not satisfactory.

We believe it is still CRS's responsibility to review the explanations regarding public benefits that it claims are ensured by the consignees. Regarding the information about adjustment of excess stocks being ensured when progress reports are received, this is obviously not sufficient. The progress reports have not been submitted in a timely manner and there were cases where consignees have made unauthorized use of the commodities. We, therefore, believe that the present system needs modification/improvement.

Recommendation No. 4

We recommend that USAID/India require CRS to (a) appropriately modify its existing system of project approval and commodity allocation and more strictly enforce its procedures to insure efficient utilization of Title II commodities for authorized purposes; and (b) comply with the requirement regarding inclusion of explanations about significant corrolary public benefits for projects undertaken on private lands.

CRS's Comments

CRS furnished explanations for two of the examples cited by us (Project Nos. A-6/34 and B-5/3) and stated that follow-up action has been taken to regularize the food utilization. CRS also stated that under the present system, the zones prepare their own calls forward. Thus a relationship is established between calls forward and quarterly FFW approvals. The actual food allocations to consignees are determined for their total program requirements. FFW approvals only compose a portion of the total allocation. It is a consignee's, and not a zonal, responsibility to administer individual FFW project allocations. The total

food utilization on each project is reported separately on the quarterly progress reports, on receipt of which the reconciliation of a particular project can be accomplished.

CRS commented that the main constraint in the system is the inability to predict the availability of food due to the erratic food flow from the U.S. and within India. CRS felt it is not necessary to modify the approval and commodity allocation procedure. It stated, however, that the zones have been advised to strengthen the control over the present system to avoid any lapses.

Auditor's Response

CRS's comments do not alter the fact that FFW program allocations are based on projects approved by it quarterly. Such quarterly approvals are continuous and are not based on the status of those approved earlier. There is, however, a time lag between allocations and actual dispatches and the total quantity allocated cannot always be dispatched due to various reasons, such as erratic shipment arrivals. Since the FFW program constitutes only a portion of a consignee's program, and because the consignee administers individual project allocations based on commodity availability, we still believe the present system needs modification/improvement for better administration of the program. CRS could, for example, mention in its commodity dispatch advice the quantities meant for each of the approved projects and require the consignees to obtain prior approval for any deviation. Such quantities could then be posted in the control record and related with actual food utilization reported in the progress reports. We believe this would improve CRS's control over the program while still continuing the existing system. We are, therefore, retaining our recommendation.

D. LOSSES/DAMAGES - REPORTS AND CLAIMS

1. Reporting of Inland Losses

Our review of CRS's inland loss procedures showed that CRS is not reporting losses promptly to USAID/India. Inland losses occur at two levels; (a) when stocks are carried by railways, and (b) at the Consignee level.

This failure to report losses is in violation of Handbook 9, Section 6Dla and b which states; "The cooperating sponsor promptly notifies the Mission ... of any loss, damage, or misuse of commodities," and; "The report should be submitted to the Mission Food for Peace Officer (FFPO) in triplicate within 30 days of the discovery of the loss, damage, or misuse." This reporting requirement is also fully elaborated in Section 211.9 of AID's Regulation 11.

Further, Sections 6D2 and 6D4a(1) require that reports of inland losses be reviewed by the Mission's FFPO and then referred to the Mission official responsible for fiscal management with appropriate comments and recommendations for further review. The FFPO is to maintain a follow-up file for each claim and issue reminder notices as appropriate to the cooperating sponsor. Any proposed settlement for less than the full amount due must be approved by the Mission Director, with the advice of the FFPO and the officer responsible for fiscal management (Section 6D4a(2)).

Consequently, since reports of inland losses are not being promptly reported, USAID/India is not in a position to fulfill the responsibilities specified in Sec. 6D of Handbook 9, is not fully aware of the magnitude of losses that occur, and is not in a position to adequately monitor follow-up action on claims that CRS may choose to pursue.

CRS, as a matter of general practice, does pursue all inland losses discovered with various Indian Railway lines, regardless of value (Reg. 11, Sec. 211.9(e) allows the cooperating sponsor to elect not to file a claim if the value of commodities lost is less than $300).

CRS's rationale, we were informed, is that any claim realized even though under the limitation in the regulations, is worth the efforts involved to pursue since the income helps alleviate in-country operating expenses (cooperating sponsors may retain $100 of any amount collected on a claim, plus any special costs incurred in the collection with USAID's approval).

The CRS practice is to concurrently prepare Damage Missing Commodity Reports (DMCR's) and Commodity Uncollectible Reports (CUR's) for USAID/India's approval, only after CRS has exhausted its best efforts to realize a refund claim. It appears that USAID/India approves these forms with little or no review, since the losses had not been previously reported. Not maintaining the required follow-up file has resulted in the situation found in the following section (See Part 2 below).

The only time USAID/India is aware of the amounts realized by CRS on claims made is when CRS submits an annual statement (formerly twice a year) which has individual Claim Payment Reports (CPR's) attached. DMCR's are also individually attached only if the value of the loss is over $300. This statement shows the amounts realized, retained by CRS and remitted to the USAID for deposit.

Our review of the two CPR statements submitted by CRS for amounts realized during April 1976 to March 1978 showed that CRS is accepting settlements for less than the full amount of the claim without prior approval from the USAID. This situation was also observed by USAID in its Administrative Review performed during May 1978. CRS's reply to USAID's review, as well as to our finding, was to cite the numerous problems involved in pursuing these claims through protracted correspondence and personal discussions, as well as the inordinate length of time it takes before a disposition of the claim settlement is made (sometimes 2-3 years). CRS also stated that there is hardly any case where the railways meet the claims for the full amounts.

We recognize the difficulties confronted by CRS in pursuing these claims. However, we find the following CRS statements to be unacceptable:

(a) "Obtaining of approval of USAID prior to acceptance (for a lesser amount) is a matter of formality only which otherwise has no significance." - and -

(b) " ... it is merely a matter of formality to report the losses at the initial stage of occurrence when the Voluntary Agency is still to determine the tenability and fight the claim with the railways."

AID regulations are not "mere formalities" and are to be adhered to for cogent reasons. Cooperating sponsors, as well as USAID's, should not unilaterally abrogate these Regulations without adequate justification made to, and approval received from, AID/W. We found no evidence that AID/W was ever queried regarding the matters set forth above.

Recommendation No. 5

We recommend that USAID/India require CRS to report inland losses to the Mission promptly, that is, within 30 days of the discovery, as required by AID regulations.

Recommendation No. 6

We recommend that USAID/India institute procedures to establish and maintain the required follow-up claim file to ensure third party claims are being pursued by CRS.

2. Unreported Claim Receipts

A selective check of claim settlements that had been realized by CRS showed that a number of receipts were collected and entered on CRS's records, but were never reported to USAID/India, as required. These were composed of both railway and consignee claims, two of which go as far back as 1974. Some of the claims do not exceed the $300 limitation (wherein the voluntary agency retains $100) which became effective November 1, 1976, but some of them precede this date when the claim limitation was $100 (voluntary agency retaining $25).

All of the claims were received and entered in CRS's accounts prior to the last CPRsubmission which was as of March 31, 1978. (The details of these items and CRS's explanation for not reporting them to USAID/India are furnished in Exhibit A). In addition to the items referred to in Exhibit A, we noted that two checks for Rs. 6,000 ($750) and Rs. 269 ($34), respectively, were returned to two consignees (Guntur and Thanjavur) under the Madras Zonal Office in July 1977. These claims were for settlement of missing commodities. The reason stated in CRS's letter, dated July 15, 1977, to its zonal office was "... we do not consider appropriate such action in settling these matters."

The instances of CRS returning claim amounts realized from consignees without USAID approval are in violation of AID regulations. We believe such lapses would have, to a major degree, been obviated if reporting procedures on losses (mentioned in Part D-1, above) had been followed by both CRS and USAID.

We believe USAID should review the propriety of refunds to the consignees (Item Nos. 9 and 10 of Exhibit A as well as the two consignees from Madras Zone as mentioned above) and also follow-up with CRS to determine how these occurred and how they can be prevented in the future.

Recommendation No. 7

We recommend that USAID/India obtain a full explanation as to the propriety of CRS returning the four claims realized from the consignees mentioned above and make a determination as to their adequacy. If it is determined that the reasons are inadequate, then USAID should seek a refund from CRS in accordance with AID regulations.

Recommendation No. 8

We recommend that USAID/India make a review of CRS's procedures to determine how and why the delay in reporting and submitting these claim receipts occurred, and take appropriate action to prevent their recurrence in the future.

In regard to the remaining claim funds collected but not reported by CRS, USAID/India, in commenting on our draft report, stated that CRS has now submitted CPRs and a check for the amount due USAID. Consequently, we have deleted the related draft recommendation from the final report.

E. UNDISPATCHED EDIBLE OIL

We found in our review at CRS New Delhi Headquarters in October 1978 that 49,454 kgs. of edible oil had been stored at the Bombay port warehouses for almost two years. During our field visit to the CRS Bombay Zonal Office in December 1978, we found that 45,357 kgs. (or 2,164 cases) were still in the Bombay warehouses.

This particular shipment (No. 2543) arrived in January 1977 and was made up of 24,545 cases. CRS/Bombay showed us a summary of its records which revealed that dispatch instructions had been issued covering the whole lot to be effected by December 1977. We were informed however, that due to the unavailability of open rail transportation, strikes and various related labor problems, 6,029 cases remained undispatched. When the situation stabilized, new dispatch instructions were issued in April 1978. However, during the period 2,164 cases of oil remained in the godowns because some of the cartons had leaked staining all of the others stacked below. The Food Corporation of India (FCI) was unable to dispatch these commodities since the railways refuse to move stained or leaky containers.

CRS/Bombay has asked for and just recently received new cardboard containers from USAID/India for the purpose of repackaging the leaky tins of oil. They informed us this process is now starting and if any tins are found to be damaged or leaking, they will be replaced with new tins and be dispatched after obtaining clearance from the public health authorities.

We find CRS's explanation to be plausible and perhaps unavoidable under the circumstances prevailing at the time. Nevertheless, our calculations show the approximate value of the undispatched oil to be almost $43,000 and we therefore believe USAID/India should follow the disposition of this oil very closely before more time elapses which may render a large quantity of the commodity to be unfit for human consumption.

Recommendation No. 9

We recommend that USAID/India (a) follow-up on CRS's efforts in repackaging the 45,357 kgs. of oil and (b) require its early utilization before additional spoilage occurs rendering it unfit for human consumption.

F. USE OF U.S. GOVERNMENT FUNDS FOR CONTAINERS

U.S. Government funds have been used for procuring containers for reconstitution of damaged Title II oil despite the availability with CRS of funds generated from the sale of empty containers.

USAID/India requests annual authorizations from the Commodity Credit Corporation (CCC) for the procurement of gunny bags for the World Food Program and Title II bulk grain shipments. In addition, the requests also cover cardboard boxes, plastic overslip bags, metal cans, etc. for reconstitution of damaged Title II commodities. CCC grants authorizations annually and payments are made from CCC Account 12X4336.

According to available information, during FY 1978 USAID/India procurements under CCC authorization included Rs. 795,619 ($99,453) for the plastic overslip bags, cardboard boxes and metal cans for the reconstitution of damaged Title II commodities. Of this amount, Rs. 161,796 ($20,224) were for the CRS program.

We believe that USAID/India could have asked CRS, as well as the other voluntary agencies, to procure repackaging containers with funds generated from the sale of empty containers. AID Regulation, Section 211.5(i) authorizes the use of container sale funds for rebagging of damaged or infested commodities. In the case of CRS, Rs.4,195,595 ($637,039) were generated during FY 1977 and FY 1978 from the sale of empty containers and there was a balance of Rs.803,283 ($100,410) at the time of our audit. Obviously, sufficient funds were available for the procurement of boxes. The usage of empty container funds for such procurements would thus result in significant savings of U.S. Government funds.

Recommendation No. 10

We recommend that USAID/India discontinue the use of CCC funds for procuring containers for reconstitution of Title II commodities and ask CRS, as well as the other voluntary agencies, to use empty container sales proceeds for this purpose.

CRS and USAID/India's Comments

CRS did not comment on this finding.

USAID/India commented that the major source of empty container funds was from the sale of gunny bags used for bagging bulk wheat shipments. Such shipments have been discontinued and funds from sale of gunny bags will no longer be available. Proceeds from sale of other containers will not be sufficient to cover the cost of reconstitution materials.

USAID/India also stated that since it has now approved the use of empty container funds for meeting administrative costs (See p. 39) the amount available for reconstitution materials will be further reduced. USAID/India felt that the recommendation should be deleted.

Auditor's Response

USAID/India has not furnished any figures in support of its statements that the gunny bags constituted the major source of empty container funds and that proceeds from sale of other containers will be insufficient to cover the cost of reconstitution materials. Moreover, bagged bulgur and corn has now been substituted for bulk wheat imported previously. USAID/India's reply does not mention this. Regarding the administrative costs, we believe it is the voluntary agency's responsibility to meet them. We do not think that this should be a legitimate reason for allowing the use of U.S. Government funds for reconstitution of damaged commodities. Moreover, in CRS's case, it may be noted that even after USAID/India's approval of the administrative costs (See p. 38), there still remains a balance of Rs. 803,283 ($100,410) in the empty containers fund. Accordingly, we are retaining our recommendation.

G. SALE OF BY-PRODUCTS

AID regulations do not contain any instructions regarding the sale of by-products and the use of funds so generated.

CRS operates a school lunch program in Baroda which involves milling of Title II wheat grain for producing refined flour. This flour is used for baking bread for distribution to the program beneficiaries. The terms of the milling contract, signed in May 1977, specify a minimum extraction rate of 48 percent refined flour from the quantity of Title II wheat grain supplied. The by-products such as coarse flour, wheat husk and wheat granules, generated from the milling of wheat is sold by the contractor and the proceeds are remitted to CRS.

In May 1978, USAID/India approved a CRS request for the utilization of funds generated from the sale of by-products for activities designed to improve the CRS Title II program. Section 4B4 of AID Handbook 9 states that if in the development of Title II programs, sales or other changes are contemplated, the Mission should seek AID guidance. No formal AID/W approval for the procedure was available in USAID/India files.

CRS records showed that Rs. 716,029 ($89,503) had been generated through September 1978. CRS had spent Rs. 307,157 ($38,395) for purchasing vehicles for its program and had transferred Rs. 196,257 ($24,557) to its Empty Container Fund during FY 1977. There was a balance of Rs. 212,615 ($26,577) in this account per CRS records at the time of our audit.

AID Regulations do not contain any provision regarding the sale of by-products or the disposition of funds so generated. There is an indirect reference to this in AID Regulation 11, Section 211.6a(2). The section, however, merely states that where milling of grains is authorized, the U.S. will not pay any milling costs except that, with prior AID/W approval, the value of offal may be used to offset them. No other use is prescribed for funds generated from the sale of by-products.

We realize that effective FY 1979 no more wheat is to be imported for the Title II program in India. Consequently, this question may be only of academic interest insofar as the CRS India program is concerned. Nonetheless, there may be similar situations prevailing in Title II programs in other countries. We therefore feel that AID/W should clarify the policy regarding the sale of by-products to remove the existing ambiguity.

Recommendation No. 11

We recommend that the Office of Food For Peace, AID/W review the matter regarding the sale of by-products and issue instructions regarding the specific purposes for which the funds so generated could be used.

H. PHYSICAL INVENTORY

1. Reporting by CRS

CRS has not complied with AID requirements regarding semi-annual physical inventories or the manner of reporting them in the commodity status report (CSR).

Section 5K2(b) of AID Handbook 9 requires that physical inventories be taken semi-annually and recorded in the CSR. Appendix A, Page A-5, of the Handbook defines the physical inventory as including those commodities which are in customs warehouses, in cooperating sponsors' warehouses, in storage with consignees or which are in transit from ports to internal warehouses.

CRS takes only an annual physical inventory and not semi-annually as required. CRS verbally discussed this matter with USAID/India and also made written requests on May 10, 1978, and August 24, 1978, for taking the inventory annually. USAID/India communicated these requests to AID/W, but no response has been received to date.

Our review of supporting documents for the physical inventory taken by CRS as of September 30, 1978, disclosed:

(a) Physical inventory was not taken at all the consignees in both the Delhi and Bombay Zones which we reviewed. CRS officials stated that it was not possible to cover all the intermediary levels due to the shortage of field staff, large areas covered by the Bombay Zone and the occupation of Delhi Zone staff with flood relief work.

(b) CRS Bombay had not reported the port level physical inventory in the CSR. Also, it had not reconciled the physical stock with book balances. There were sizeable differences between the physical count and the book balances in the case of oil:

Shipment No.	Book Balance	Physical Count
2543	49,454 kg.	42,905 kg.
2661	15,758 kg.	62,081 kg.
2687	101,026 kg.	57,912 kg.
2704	263,238 kg.	405,869 kg.

We also noted some differences in reporting the physical inventory at two consignees when we selectively reviewed the documentation with CRS, Bombay.

CRS explained that the differences in the port level inventory were due to oil belonging to more than one agency being intermingled, but the stock card showed it belonged to CRS. CRS further stated that it resolves such differences with FCI by frequent visits to FCI's warehouses. Nonetheless, we believe that the very purpose of taking a physical inventory is defeated if the differences between the physical stock and the book balances are not reconciled and explained in the CSR.

Subsequent to the completion of our audit, AID/W granted approval for CRS to conduct physical inventories on an annual basis. We have, therefore, not made a recommendation. However, since AID procedures require that inventory be conducted at all levels other than feeding centers, USAID/India should require CRS to cover all consignees in its next annual inventory. Moreover, in according its approval, AID/W mentioned that USAID/India will be expected to monitor CRS's book audits closely. Accordingly, USAID/India should evolve a procedure to comply with this.

Recommendation No. 12

We recommend that USAID/India require CRS to furnish a revised CSR as of September 30, 1978, explaining the differences between physical inventory and the book balances and how these were, or will be, resolved. USAID/India should also require CRS to fully explain any such differences in its future CSR submissions.

2. Visits to Distributors

We found differences between the physical stock and book balances in the case of one of the seven distributors where this aspect was reviewed by us. The distributor, Catholic Church, Umreth, was unable to explain these differences which are furnished below:

	Book Balance	Physical Stock	Difference (Shortage)/Excess
Bulgur (Bags)	47	71	24
CSM (Bags)	28	14	(14)
Oil (Cases)	54	70	16

In our opinion, these differences could be due to the distributor not actually distributing the commodities although recorded as such, or distributing less than the recorded quantity.

We also found that this distributor had not recorded the receipt of consignment of 7 cases (146 kgs.) of oil which were issued by the consignee in August 1978. Other documents available with the consignee showed that the distributor had received the oil.

Recommendation No. 13

We recommend that USAID/India require CRS to review and furnish a report on the operation of this distributor's program, including a reconciliation of the differences between the physical stock and the book balances mentioned above.

I. PUBLICITY

Our selective review from various sources showed that greater efforts are required by CRS to publicise the source of Title II commodities. Generally, beneficiaries were not aware that the food being distributed is a gift from the people of the U. S.

Section 5H of Handbook 9 states the objective of publicity is to assure that the recipients know commodities they receive have been donated by the people of the U. S. ; and requires that publicity be given to all entities involved in the program. Publicity requirements are further amplified in Sections 211.5(g) and 211.6(d) of AID Regulation 11.

During our field trip within the Bombay Zonal Office, beneficiaries were interviewed, at selected project sites, and were generally unaware of the source of the food. As an example, at three school lunch centers in Baroda, only five of the 246 children interviewed (ages 12 to 13) were aware of the source. A few stated the food was received from CRS and one stated it was received from Russia. Also, although posters were provided by CRS for display at feeding centers which shows the source of the commodities, not all of the distributors visited during our field trip had actually displayed them.

It was noted that field visit report formats used by zonal field representatives for use when visiting consignees and distributors do not cover the publicity aspects of the program.

The USAID/India evaluation section also makes field reviews at the consignee and distributor level. A selective check of these reviews indicated, when beneficiaries were able to be interviewed, that they were generally unaware of the source of commodities.

In addition, CRS's Baroda School Lunch Program, servicing some 122 schools, involves the distribution of bread made from Title II commodities. We found there was no attribution to the U. S. source of the commodities on the wrappers covering the loaves of bread.

Section 211.6 of AID Regulation 11 requires that when cooperating sponsors arrange for processing commodities into different end products and packaging prior to distribution, the containers shall state the source of the commodities in local language and be plainly labeled with the AID emblem.

We noted this lack of knowledge as to the source of food was also brought to the attention of CRS Delhi headquarters by USAID representatives. CRS/Bombay had circularized a letter in August 1976 to all consignees and distributors regarding publicity. This letter admonished consignees and distributors that commodities given to the poor were not being promoted as a gift from the U.S. people; and they should be verbally and graphically informed. CRS also promised to supply posters which, we were informed, were furnished about two years ago.

In our opinion, such circulars and the provision of posters are commendable. However, two years after their issuance the recurring theme of lack of knowledge of source by beneficiaries is still evident. We believe the requirement for adequate attribution should be reiterated to the consignees and distributors and that CRS field representatives should be required to remind consignee/distributors, as well as check on their compliance, everytime they make field visits.

Commenting on a recommendation in our draft report USAID/India stated it is continually addressing this matter during its field reviews and CRS is cognizant of, and has taken steps to improve, the publicity requirement. CRS also stated that steps have been taken for labeling the bread wrappers. In view of these actions, we have deleted the recommendation.

J. CONTAINER DISPOSAL

1. Obliteration of Markings

AID Regulation 11, Section 211.5h(2) authorizes the sale or other disposition of empty containers. However, the regulation requires that if the containers are to be used commercially, the voluntary agency must arrange for the removal or obliteration of U.S. Government markings from them prior to such use.

Although CRS requires its consignees to sell the empty containers, it has not instructed them to obliterate the markings. Our field visit to two consignees and their selected distributors disclosed that the empty containers were being sold without obliteration of the markings. These consignees were not aware of the requirement.

Commenting on our draft report recommendation, CRS stated that its zonal offices have already issued circulars to the consignees and distributors to obliterate the markings on the containers. USAID/India has also formally directed its staff to review this aspect during their field visits. We have, therefore, deleted the recommendation.

2. Use of Sales Proceeds

AID Regulation 11, Section 211.5(i), authorizes the use of funds from the sale of containers for payment of program costs such as transportation, storage, handling, insect and rodent control, and other program expenses specifically authorized by AID.

Our selective review disclosed the following expenditures during January 1, 1977, to September 30, 1978, which do not fall within the allowable costs:

Nature of Costs	Amount
Office expenses	Rs. 301,522
Office occupancy	184,280
Office equipment repair and maintenance	13,840
Office equipment, vehicles etc.	90,819
	Rs. 590,461
Equivalent Dollars ($1 = Rs. 8)	$ 73,808

AID approval for such costs is necessary. USAID/India granted the approval on January 16, 1979 subsequent to the completion of our audit. We have, therefore, deleted the recommendation in our draft report that USAID/India review the permissibility of these costs.