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AUDIT REPORT
CARE P.L. 480, TITLE II PROGRAM
USAID/COSTA RICA

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Area Auditor General Latin American
Agency for International Development

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I PURPOSE AND SCOPE

The Office of Area Auditor General, Latin America, has made an interim audit of the PL 480, Title II food distribution program in Costa Rica to determine if the Cooperative for American Relief Everywhere, Inc. (CARE), the Cooperating Sponsor, was effectively planning, managing and coordinating the program with the Government of Costa Rica (GOCR), and if USAID was adequately monitoring the overall program. Audit scope included a review of program levels; phase-out plans, commodity receipt, distribution and inventory controls inspection coverage, losses and actions on prior audit recommendations. In connection with our coverage of activities we made field visits to the two ports, four warehouses, five distribution points, eight Maternal Child Health Centers (MCH) and fourteen schools and held discussions with USAID, CARE and GOCR officials as considered necessary. The audit was made during May-June 1977 and covered the period from July 1, 1973 to April 30, 1977 with major emphasis given to current operations and plans.

The audit was made at the request of USAID and applicable comments of management have been incorporated into this report.

II BACKGROUND

The CARE PL 480 program in Costa Rica operates under a Basic Agreement between CARE and the GOCR of February 9, 1959, supplemented by annually negotiated operating agreements which set forth the food requirements solicited by CARE from the U.S. Government and the logistical and financial support to CARE by the GOCR. For the past several years, CARE annual agreements have been signed with the Ministry of Public Health (MOH), the Ministry of Public Education (MOE) and the Instituto Mixto de Ayuda Social (IMAS). The CARE program has been assisting in three areas with PL 480 inputs into the growing GOCR programs of School Lunches (SLP), Maternal Child Health (MCH) and Other Child Feeding (OCF). At the present time the GOCR is providing food to about 1552 of its approximately 3081 public schools and kindergartens and to all of its approximately 350 MCH centers. The CARE PL 480 program provides food to almost all of the MCH centers and to about 2,765 schools, including many schools not yet covered by the GOCR programs.

Since 1974 emphasis has been toward the complete phase-out of the CARE PL 480 program. The OCF with 3,517 recipients was to phase-out in fiscal year 1975, the SLP with 343,290 in 1976 and the MCH with 31,754 in 1977. In connection with the phase-out CARE has been working to develop a process for the phase-in of a program for in-country production of a corn-soya blend (CSB) type nutritious food. The project, which involves both the production of soybeans and the manufacture of low-cost food mixes, is being funded to a large degree by an AID Operational Program Grant (OPG) for \$314,600. The program is well supported by the GOCR.

III SUMMARY

In general, we found that CARE was adequately controlling and properly accounting for the arrival, storage and distribution of PL 480 commodities. Following our Audit Survey Report dated August 25, 1976 (No. 1-51F-76-59), in which we commented on CARE's (1) non reporting of commodity status to USAID, (2) not making any self-audits since 1974, and (3) discontinuing inspections of its programs, CARE took the necessary action and has corrected these deficiencies.

In our current review, we note that improvements are needed in program planning. Significant findings are presented in Part IV of this report and summarized below:

- PL 480 requirements were not realistically presented in the 1977 AER. A revised estimate should be prepared to facilitate the GOCR take over of PL 480 programs and to determine a safe inventory level to prevent spoilage.
- Two of the 14 schools visited were not redistributing the PL 480 food received and three schools were feeding the students on alternate days instead of daily. Improvements should be made in CARE and MOE inspection procedures and coverage.

IV FINDINGS AND RECOMMENDATIONS

A. Program Planning and Requirements

PL 480 requirements were not realistically presented in the Annual Estimate of Requirements (AER) prepared by CARE for fiscal year 1977. The AER was approved for 3.5 million pounds of basic food for use in the Maternal Child Health (MCH) program, but at the current distribution rate that program will only be able to absorb about 0.5 million pounds. On the other hand, PL 480 food was not requested by CARE for the School Lunch Program (SLP) because it was to phase out in fiscal year 1976. However, there appears to be a need for more food in this program, CARE has already distributed 1.7 million pounds of food to the SLP in fiscal year 1977.

In addition, commitments for receipt of 4.2 million pounds of dry peas and 4.1 million pounds of non-fat dry milk (NFDM) were obtained by CARE through special PL 480 offers, approved by the GOCR, with the understanding that the NFDM and some of the peas were to be used in the MCH program. In order to effectively distribute this food it would be necessary to arbitrarily

increase the number of CARE beneficiaries and/or nutrition levels at a time when orderly phase-over of the CARE recipients to the GOOCR program should be taking place.

The Director of CARE/Costa Rica (CARE/CR) stated that an inventory build-up has occurred because ⁽¹⁾more GOOCR food was allocated to the MCH program than was anticipated by CARE at the time CARE prepared the AER for PL 480 and that CARE was going to accept all but 0.5 million pounds of the AER food. ⁽²⁾CARE was acting on the premise that at least 1.6 million pounds of AER food was allocable to the fiscal year 1976 School Lunch Program (SLP) because the food was in inventory (or due-in) at the close of fiscal year 1976. The CARE Director also stated that CARE/CR envisioned using NFDM and peas in the SLP when special offers for these foods were first presented by CARE/New York, but the GOOCR officially requested the NFDM for use in the MCH program.

The result is that PL 480 inputs have been increased in total to 4.3 times Costa Rica's normal allocation (three year average) and although the inventory appears to be adequately warehoused at present, it is subject to extensive spoilage if held for an unreasonable period of time.

Recommendation No. 1

USAID coordinate with CARE and the GOOCR in preparation of a revised plan (including an AER revision) to efficiently work down current/expected inventories of PL 480 commodities and complete phase-over of feeding programs to the GOOCR.

B. Nutritional Aspects of School Program

Of the 14 schools visited, one in Puntarenas and one in Limón had not yet redistributed the PL 480 that had been received one or two months before; and three other schools in Limón were redistributing food every other day instead of daily although food for daily feedings was provided. Meals were served each morning but students were on half-day schedules and were attending morning sessions on alternate days. Those attending afternoon sessions received no meals. MOE supervisors were regularly visiting the schools and CARE inspectors had recently visited four of the five schools; however, effective action was not being taken to implement the supplemental nutritional PL 480 levels established for the children at these schools.

Although the sampling of schools was small, it raises questions as to the overall impact of the program and points to some areas which need to be investigated by CARE and USAID. One of the most important aspects of the PL 480 program is that the children receive an adequate portion of nutritious food to supplement their daily diets and school inspectors must not only

investigate this, but be prepared to institute corrective action and follow-up when necessary. MOE supervisors should be solicited to review important aspects of the nutrition program during their visits.

Recommendation No. 2

USAID should work with CARE to improve the CARE and MOE inspection procedures and coverage to assure that adequate and coordinated inspections are carried out and that established nutrition levels are implemented.

C. Phase Over

CARE plans that the soybean program will serve as the media for the effective phase over from use of PL 480 to Costa Rica's own production and processing of a CSB type product, however, there has been about four months slippage in the program. Latest CARE estimates are that under a tight schedule the food processing plant will be operational by December 1977 but that equipment procurement needs to be completed. USAID is assisting CARE to finalize this stage of the program and is obtaining waivers where necessary.

D. CARE Self-Audit

The CARE self-audit covering fiscal years 1974, 1975, and 1976 contained certain findings that were questioned by the USAID. These include the reported components in the July 1, 1974 inventory balance, commodity transfers and loss recovery actions. Since USAID is pursuing these points with CARE and CARE has acknowledged that it is taking action to resolve them, no recommendation is being made at this time.

EXHIBIT A

CARE PL 480 COMMODITIES RECEIVED
JULY 1, 1973 TO APRIL 30, 1977
IN COSTA RICA

<u>Fiscal Year</u> <u>Thousands of Pounds</u>	<u>Total</u>	<u>WSB</u>	<u>CSM</u>	<u>Flour</u>	<u>WSDM</u>	<u>CSB</u>	<u>MILK</u>	<u>GREEN PEAS</u>	<u>OIL</u>
FY 1974	2,743	426	2,018	200	0	0	0	0	99
FY 1975	2,977	624	0	185	1,495	300	0	0	373
FY 1976	1,730	549	0	81	862	0	0	0	238
FY 1977 *	10,701	1,374	0	550	0	0	4,138	4,151	488
Totals	18,151	2,973	2,018	1,016	2,357	300	4,138	4,151	1,198

<u>Thousands of Dollars **</u>									
FY 1974	\$ 432	\$ 68	\$ 311	\$ 24	\$ 0	\$ 0	\$ 0	\$ 0	\$ 29
FY 1975	998	96	0	27	608	56	0	0	211
FY 1976	571	189	0	12	240	0	0	0	130
FY 1977 *	2,607	118	0	136	0	0	1,461	791	101
Totals	\$4,608	\$471	\$ 311	\$ 199	\$ 848	\$ 56	\$1,461	\$ 791	\$ 471

* Due in commodities for fiscal year 1977 included.
 ** Ocean Freight included in value of commodities.

REPORT RECIPIENTS

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