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AUDIT REPORT

ON

CATHOLIC RELIEF SERVICES' PL 480, TITLE II

PROGRAM IN INDIA

AUDIT REPORT NO. 5-386-84-3

MARCH 27, 1984

Implementation and management problems continue to exist in the CRS program. Our audit disclosed weaknesses, a lack of records and controls, losses of commodities, non-payment of claims, and surveilliance efforts that were not adequate to ensure that commodities and program generated funds were used effectively in accordance with A.I.D. regulations.

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IN INDIA

EXECUTIVE SUMMARY

Introduction

The United States Government has been donating PL 480, Title II commodities to India for over 30 years to meet urgent relief requirements, combat malnutrition, and promote economic and community development. The India program is the largest in the world and has received commodities valued at more than $2 billion, including ocean freight, during this period.

Presently, Title II programs are being sponsored in India by two U.S. private voluntary agencies - CARE and Catholic Relief Services (CRS). This report covers the activities of CRS. The CARE program was reviewed earlier and is covered in a separate report (No. 5-386-82-7) dated June 7, 1982.

CRS operates large, varied and widely scattered programs. They include food-for-work (FFW), maternal and child health (MCH), school feeding, institutional health, and other child feeding programs. All are implemented by five CRS zonal offices, which operate through a network of about 200 consignees, 7,500 distributors and thousands of FFW project sites located all over the country. Under the governing Indo-U.S. agreement, the Government of India (GOI) is responsible for the clearance, storage and transportation of commodities to the consignees. The GOI has assigned this responsibility to the Food Corporation of India (FCI).

CRS' approved program levels totaled 445,000 metric tons of commodities valued at $172 million during the three years covered by our audit. The commodities were to be distributed to an estimated 1.6 to 1.9 million beneficiaries.

The audit was made to determine if the program was being (a) carried out in accordance with AID regulations, policies and objectives, and (b) implemented, managed and monitored in an efficient manner.

Findings and Conclusions

Our audit disclosed that implementation, management and monitoring problems continue to exist in the CRS program even after 30 years of operation, and despite critical comments made in previous audit reports. In brief, our selective review disclosed that:

- The FFW program, which represents about 50 percent of the total CRS program in terms of commodity input, was poorly managed. Documentation and controls were inadequate, project proposals were not based on identified need, and no systematic evaluation was made to determine if projects were completed as planned or if they were productive. Stock and attendance records were not available or were unreliable at 11 of the 13 centers visited. In addition, there were inventory differences at 6 centers, unacknowledged commodities at 4 centers, and unsupported or inflated distribution claims at 5 centers. Overall, we found questionable uses of or unaccounted commodities totaling 610,799 kgs., valued at $191,000 (pp.5-9).

- Records and controls in the other feeding programs were not adequate, although the problems were not as great with the MCH program. We visited 34 centers and found:

  - unacknowledged commodities at 5 centers;

  - unauthorized distribution to ineligible persons at 7 centers, and inflated or unsupported feeding claims at 9 of the 15 centers where we observed food distribution;

  - inadequate stock or beneficiary records at 14 centers;

  - inventory differences at 8 centers;

  - program duplication at 3 centers; and

  - consumption in excess of authorized ration rates at 13 centers.

  Overall, we found that 62,116 kgs., of commodities valued at $39,515 were unaccounted or improperly used (pp.9,10).

- The GOI instrumentalities involved in the clearance, storage and transportation of commodities were generally not honoring claims for lost or damaged commodities. Officials at these organizations contend they have no responsibility for losses or damages under the Indo-U.S. Agreement. As a result, claims were either not filed or have remained pending for long periods. Our selective review disclosed losses involving 1.6 million kgs., of commodities valued at $569,146 that were outstanding for several years.

  The AID mission in India has agreed that the Indo-U.S. agreement does not make these GOI instrumentalities responsible for losses or damages. At the same time, however, it was reluctant to pursue the matter with the GOI. The mission believes such action could be unproductive and mutually embarrassing. Consequently, it is unlikely the situation will improve. (pp. 11-13).

- CRS had generally not filed claims or taken other action against consignees and distributors for the cost of unaccounted for and misused commodities. We found such instances involving 1.1 million kgs., of commodities valued at $360,338 during the audit. (pp. 13-16).

- CRS internal review reports do not disclose the extent or seriousness of management and implementation problems. Such reporting distorts information available about CRS' performance, and prevents the mission from making a meaningful assessment of the program's effectiveness. (p.16).

- CRS' surveillance efforts, reporting and follow-up were not adequate to ensure that commodities and program fund generations were used effectively and in accordance with AID regulations. (p.17).

- Substantial amounts of funds were being generated under the program, but proper accountability was lacking to ensure that the money was being used for authorized purposes. (pp.17,18).

- Warehouse conditions at Calcutta were less than satisfactory. These conditions contributed to the waste and unauthorized diversion of commodities. (pp.19,20).

- Procedures for estimating commodity requirements were deficient. As a result, we found overstocking and interruptions in the feeding programs. (pp.20,21).

In the 3 consignee programs reviewed, we found indications of major diversions and misuse of commodities at one, and a general lack of controls at the other two. As a result, we concluded CRS' program management has not been sufficient to ensure that commodities and program generated funds were used efficiently and in accordance with AID regulations. Moreover, due to a lack of evaluations, information about program impact was generally not available. The CRS program has been ongoing for more than 30 years, yet no plan has been developed to transfer responsibility to local resources.

In our opinion, the following factors are in part at least responsible for these recurrent problems: (a) the program is too large, varied and scattered to be effectively managed by CRS' limited resources; (b) projects are approved without an effective review of the consignee resources or capability to manage operations; (c) consignees and distributors do not follow established procedures and CRS does not take action against the defaulters; and (d) current Title II regulations are quite stringent and place a heavy administrative burden on CRS' limited resources.

Most of the problems noted in the CRS program are similar to those found in the CARE program. Overall, we feel that improvement is needed to make the CRS program compatible with AID regulations. We believe that improvements will be difficult to make unless the program is limited to a more manageable size and an adequate system is developed to evaluate program results. However, our experience has been that AID is generally reluctant to reduce program sizes despite continuing problems.

Recommendations

CRS has reacted very positively to the audit findings and has reportedly initiated or planned corrective actions to improve program performance (p.4). In addition, CRS has made significant efforts to upgrade its MCH program so that it will better address AID's nutritional objective (pp. 10, 11). CRS has also reduced its school feeding program by 60 percent from 485,000 beneficiaries in fiscal year 1981 to 197,000 in fiscal year 1984. Finally, the AID mission and CRS are currently involved in a two-phased evaluation of the FFW program. Phase I consists of selected asset and recipient profile studies to determine program impact. Phase II involves the development of a monitoring and evaluation system which the mission expects will be fully operational by late 1984 or early 1985 (p. 9).

We have not recommended a reduction in the CRS program. However, because of continuing problems, we have recommended that the mission establish a time limit within which CRS must demonstrate that the required improvements have been made. (p.5).

In addition, we have made 6 other recommendations which address problems relating to the FFW program (p. 9), lost or damaged commodities (p. 13), unaccounted for or improperly used commodities (p. 16), internal reviews (p. 16), and program generated funds (p. 18).

A draft of this report was reviewed by AID mission and CRS officials. Their comments were considered in the preparation of the final report.

BACKGROUND

Title II of PL 480 authorizes the donation of food commodities to meet urgent relief requirements, combat malnutrition, promote economic and community development, and provide food for poor and needy persons outside the United States. The three major program areas where the food is used are maternal and child health, food-for-work and school feeding.

Title II food distribution programs are presently being sponsored in India by two U.S. private voluntary organizations: CARE and CRS. This report covers the CRS program.

CRS has been operating a Title II food distribution program in India since 1951 under the mandate of the Indo-U.S. Agreement. Under this agreement, the GOI is responsible for providing duty free entry for the commodities and 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 handling of commodities for the public distribution system.

Each year AID approves the CRS program levels based on program proposals and annual estimates of commodity requirements submitted through its mission in India. The mission is responsible for providing guidance and monitoring the administration and implementation of the program in accordance with AID regulations and procedures. CRS is responsible for program development and operations, including proper use of commodities and funds from the time of acquisition until they are utilized.

CRS present programs consist of maternal and child health (MCH), school feeding (SF), Food-for-Work (FFW), individual health cases (IHC), and other child feeding (OCF) categories. CRS administers its programs through five zonal offices located in Bombay, Calcutta, Madras, Cochin and New Delhi. Each zonal office is responsible for program planning, implementation, supervision, surveillance and commodity accountability. The headquarters in New Delhi is primarily responsible for providing policy guidance and directives, reviewing the performance of each zone, and conducting internal reviews of the program.

At the field level, the program operates almost exclusively through the Indian Catholic Church hierarchy. FCI transports the commodities to the approved consignees on the basis of dispatch instructions issued by CRS. Consignees issue the commodities to distributors who have organized the actual programs in which the food is to be used. Presently, the distribution system functions through a network of about 200 consignees, 7,500 distributors, and several thousand food-for-work project sites located throughout the country. The program is large, varied and scattered.

Approved program levels for the three fiscal years covered by our audit were:

Recipients (in 000s)	FY 1980	FY 1981	FY 1982
MCH	630	638	650
SF	485	485	285
FFW	600	600	535
IHC	98	90	90
OCF	118	118	100
	1,931	1,931	1,660
Commodities (MT)	155,322	155,130	134,269
Value ($000) (including estimated ocean freight)	$52,500	$66,791	$52,469

During this three year period, CRS received shipments of 336,781 MT of commodities valued at about $126 million, including estimated ocean freight. In addition, in each of the years CRS had a sizeable commodity inventory remaining from the prior year which was available for programing purposes.

PURPOSE AND SCOPE

The purpose of this audit was to ascertain progress made in achieving program objectives; to determine whether the program was effectively carried out in compliance with AID regulations and procedures; to assess CRS' planning, management and evaluation of the program; and to review the mission's monitoring actions. We also reviewed actions taken by CRS to correct the deficiencies reported in prior Audit Report No. 5-386-79-7 dated February 28, 1979.

At AID we reviewed mission files and held discussions with appropriate personnel. At CRS we selectively reviewed the procedures, controls, records and reporting related to the Title II program commodities and funds, and held discussions with personnel. For our audit sample, we selected 2 of the 5 CRS zonal offices, 3 consignees, 34 distributors under the various programs, and 13 FFW project holders. In addition, we reviewed the CRS headquarters operations. Our audit covered the period from 1980 to 1982.

Our audit was made in accordance with generally accepted auditing standards and included such tests of records, documents and discussions as were considered necessary. Copies of our draft report were provided to the mission and CRS for comment. Their comments were considered in the preparation of this final report.

AUDIT FINDINGS, CONCLUSIONS AND RECOMMENDATIONS

Overall Assessment of the CRS Program

Our audit disclosed management and operational problems in the CRS program. The problems were found at both the zonal offices and at the field locations visited, and most of them were identical to the problems reported in our previous audits. For example, we found there was little analysis or evaluation of documents generated under the programs; program planning, implementation and monitoring was generally not adequate; reporting deficiencies or known problems generally remained uncorrected; there was no evaluation of program accomplishments and controls were not in place to ensure that program generated funds were used for authorized purposes.

At many of the distributors visited, particularly those under the Ranchi consignee, our audit revealed inventory shortages, unauthorized distributions, inflated feeding claims, program duplication, inadequate stock and beneficiary records, and variances between reported figures and commodities.

The problems were most pronounced in the FFW program, which, in terms of commodity input, represents about 50 percent of the total CRS program. CRS' administration of the FFW program has been the subject of repeated audit criticism in the past. Nevertheless, it continues to have problems, and still operates without a discernible overall objective and priorities, or a system for evaluating the benefits realized from completed projects. Weaknesses were also noted in other programs. In the case of the MCH program, however, CRS has initiated upgrading efforts which, when implemented, will require selective coverage of beneficiaries on the basis of nutritional status.

AID regulation 11 emphasizes the need for close and continuing program supervision to ensure effective management and control. On the basis of the deficiencies observed, we have concluded that program supervision by CRS has not been sufficient to assure the effective use of Title II commodities and program generated funds in accordance with AID policies and regulations. For example, at one of the three consignees visited (Ranchi), we found indications of major diversions and misuse of commodities. At the other two consignees also we found a lack of documentation and controls. Overall, our selective review disclosed questionable uses of or unaccounted for commodities totaling 672,915 Kgs., valued at about $230,515 (Exhibit A and Page 15). Our audit sample was small. We do not know if similar problems exist at the other consignees and distributors which we could visit. If, however, our sample is representative, the extent of problems is significant.

CRS has attempted to address the problems pointed out in previous audits by developing comprehensive operating procedures and guidelines. However, the problems have continued to exist because:

- the program is too large, varied and scattered to be effectively managed;
- the projects are being approved for the same consignees year after year without an effective review of their capability or resources to manage operations;
- the consignees and distributors do not follow established procedures, and CRS has not taken appropriate action to enforce its administrative requirements; and

- the administration, monitoring and evaluation of the program by CRS has not been completely effective.

The problems are compounded by the operational constraints inherent in a food distribution program with voluntary workers over which CRS has no direct control, remote locations, transportation difficulties, lack of trained manpower, and limited financial resources. In addition, Title II regulations are quite stringent and place a heavy burden on CRS' administrative capabilities.

CRS has reacted very positively to the audit observations and, subsequent to the completion of our field work, informed the mission that follow-up has been initiated on the specific problems disclosed by our review. CRS has also informed the mission that other steps initiated or planned to improve the program include a reduction of the Calcutta zone FFW program by 46 percent beginning in 1984, as a result of the audit findings, and development of systems and procedures to correct identified deficiencies. Finally, all food shipments to the Ranchi consignee have been suspended and will remain so unless CRS headquarters in New Delhi authorizes resumption.

Since extensive details of our findings were provided to both CRS and the mission during the audit, we have not repeated them here. Instead, we have briefly discussed the most significant findings under the relevant sub-captions.

Conclusion

Improvement is needed in CRS' management and supervision to ensure that Title II commodities and program generated funds are used in accordance with AID regulations and procedures. Although we believe the program may be too large for effective management and control, we have not recommended a reduction in size because of CRS' assurances that necessary improvements will be made rapidly. For this same reason, we have generally refrained from making individual recommendations on specific deficiencies observed.

However, as successive audits of the program have continued to disclose problems, we believe it is necessary to establish time limits within which CRS must make the required improvements. Similarly, in view of the serious problems found in the Ranchi consignee program, we believe any action to resume that program should be preceded by a joint review by the mission and CRS to establish that adequate actions have been taken to ensure efficient utilization of Title II commodities for authorized purposes.

There is also a need for AID management to determine if existing regulations and procedures can be modified to accommodate the practical difficulties inherent in managing Title II food distribution programs. We have, however, made no recommendation on this subject because AID has established a task force to review current Title II regulations.

Comments

In response to our draft report, the mission informed us that steps have been initiated to verify the corrective actions taken by CRS thus far. However, in view of the deficiencies found, the mission expects that this action cannot be completed before June 30, 1984.

Recommendation No.1

The Director, USAID/India should require CRS to take necessary corrective actions on the deficiencies disclosed by the audit within a specific period of time and at the end of that time make a determination on CRS' capacity to effectively manage its program with the resources it has available.

Phase-Over Plan Has Not Been Developed

The CRS program has been ongoing for about 30 years, but no phase-over plan has been developed to ensure the gradual transition of program responsibility to local resources. The development of a phase-over plan may be difficult because CRS operates through voluntary organizations and receives very little commodity or financial support from the Indian Government. However, since Title II policy requires that programs be conducted within a framework of increasing local participation leading to eventual transfer of full responsibility, we believe the matter should be reviewed by AID. We made a recommendation on this subject in another audit report, and action on that recommendation is still pending. Since the final decision will also apply to CRS, we are not making a similar recommendation here.

Food-For-Work Program

There are problems which continue to plague the FFW program. We found that established procedures were not followed and documentation and controls over the projects were not adequate. No systematic evaluation was made to establish the need for projects, or to determine if projects were completed as planned, or if the completed projects were productive.

The FFW program aims at supporting economic and community development projects wherein Title II commodities are distributed to workers as compensation for work performed. CRS has developed a manual which contains instructions about the planning and implementation of such projects by the consignees and distributors. The projects are approved quarterly by CRS based on the proposals received from the consignees. Our selective review of records at the two zonal offices, three consignees and distributors visited disclosed the following:

- 1) The annual reports required by CRS for program planning purposes were either not received or were inadequate and repetitive. For example, 16 of the 24 consignees in the Calcutta zone did not submit the narrative reports in either 1982 or 1983. The reports received at both zones did not contain important information required by CRS on how program objectives fit into government development plans for the area, what capital inputs were expected, and an evaluation of the previous year's program.

  Both Madras consignee reports were identical for several years. One of the consignees continued to make identical statements about the need to help areas effected by the 1977 floods 6 years after the disaster. No information was provided about how much had been accomplished and what remained to be done. The other consignee stated in the fiscal year 1981, 1982, 1983 and 1984 reports that people and many project holders were not in favor of projects that benefited only individuals. Despite this, CRS has continued to approve consignee requests for similar projects on land owned by individuals.

Commenting on this finding, CRS informed us the requirement about submission of narrative reports on FFW projects will be revised.

- 2) Project planning, review and approval was arbitrary; established CRS procedures were not followed and project proposals were not based on identified need. The consignees' consolidated project requests furnished to CRS did not provide sufficient information to enable a proper review. Similarly, the individual project applications furnished by the project holders to the consignees, which form the basis for the consolidated requests to CRS, were not adequate. We noted instances where the project data shown in the various forms differed from one another and where project sizes were arbitrarily changed by the consignee. In many cases, project applications were either not available, were incomplete or were otherwise inadequate.

  Many applications from Madras consignees were unsigned and undated or were carbon copies of prior year submissions. In the case of the Ranchi consignee, the application forms had preprinted answers. Generally, it was apparent that project applications were not based on an objective assessment of need. Moreover, there was no information available to show who will maintain projects undertaken on public lands after their completion.

- 3) Some projects were applied for and approved more than once, and similar projects at the same locations were approved year after year. One project was improperly approved in the name of a fictitious beneficiary, and another project reported as completed had not even been started. We visited 30 completed projects and in 17 instances they had not realized their objective. Under current CRS reporting procedures, there is no requirement to disclose whether or not a completed project realized its expected benefits.

  There were also instances where the actual project undertaken differed from that which had been approved, where no facilities existed for providing the stated training, where commodities were used for unapproved activities, and where commodity losses were shown as consumption. Finally, we found instances where food was shown as distributed to workers some months after the work that was reportedly done by them was completed but during a period when no food was available.

- 4) The statements about corollary public benefits required by Section 10c(1) of AID Handbook 9 were not given for projects undertaken on private land. A majority of the FFW projects were on private land, but the proposals did not describe the public benefits to be derived from the project. Nor did the proposals answer questions about whether the beneficiaries were from the poorest segment of the population with an income insufficient to support their families or how the projects would make them self-sufficient.

- 5) There were numerous projects that were carried out on church-owned land. In the Madras zone, we noted 34 such projects for which 361,128 kgs of grain and 12,639 kgs of oil were used. Similarly, 8 of the 28 projects visited by us at Ranchi were on church land. CRS informed us that projects on church land are permissible as long as there is a corrollary public benefit to the community. However, the project proposals did not identify such benefits.

  Subsequently, in response to our draft recommendation, the mission sought AID/W clarification on whether or not approval of FFW projects on church land is permissible. AID/W replied that implementation of FFW projects on church owned lands may continue provided that (a) they comply with the requirements of Handbook 9, (b) written documentation furnished by CRS includes a full description of the activity and explanation (prior to project approval) of the expected corrollary public benefits, (c) these benefits not be to the exclusion of the general public welfare, and (d) the projects will continue to be used for general public benefit or for purposes for which they were approved after completion.

  CRS admitted that its current practice was deficient in documenting the corrollary public benefits and in following-up on the benefits realized from completed projects. However, CRS informed us that steps have been taken to instruct consignees to include written statements about public benefits in project applications. CRS is to provide copies of these instructions to the mission.

- 6) Stock and attendance records were either not available, incomplete, unreliable or contradictory at 11 of the 13 centers (85%) visited in the Madras and Calcutta zonal programs. At seven Ranchi consignee centers, we found inventory differences at six centers. Commodity issues shown in the consignee records were not acknowledged by the distributors at 4 centers and unsupported or inflated distribution claims were found at 5 centers. All together, our selective review disclosed questionable or unaccounted for commodities totaling 610,799 kgs., valued at about $191,000 (see Exhibit A, P. 24). In the case of the Ranchi consignee program, we concluded that there were significant unauthorized diversions and misuse of Title II commodities.

- 7) The quarterly project progress reports furnished by the consignees were generally inaccurate or contradictory. The reports showed many instances of back-dated feeding, unauthorized and questionable use of commodities and wide variations in total workdays utilized on similar completed projects. Such instances shown in the reports were not being adequately reviewed by CRS personnel.

Overall, we found the reporting by the Ranchi consignee and distributors to be unreliable and inaccurate. For example, oil consumption claimed by the Dumberpath Center in monthly stock reports to the consignee was higher than that shown in the subsidiary project records and the completion reports for both 1981 and 1982.

	FY 1981	FY 1982
	(In Kgs.)	
Oil Consumption		
- Per Center Stock Reports	3,142	6,303
- Per Project Subsidiary Records	1,766	2,105
- Per Completion Report	1,819	4,506

The Center could not explain the differences, and we could not reconcile the records because of incomplete data.

CRS generally agreed with the audit findings and acknowledged the need for corrective actions to improve overall program operations. The Ranchi program has been terminated and other actions taken to address the problems identified by the audit. However, in a majority of the cases, especially those relating to the improper uses of or unaccounted for commodities, the findings had not been resolved because consignee explanations are still pending some six months after the details were provided.

In the case of Ranchi, CRS believes our conclusion about significant diversions of Title II commodities was premature and that explanations can eventually be provided to justify the use of commodities in most, if not all cases. For this purpose, CRS has requested further clarification from the consignee, and has also suggested a joint follow-up visit by mission officials to review the situation.

Conclusion

On the basis of problems found in the FFW program, we concluded that it is not well managed, and that little information is available on its impact.

CRS has acknowledged in its FFW manual that it is not in a position to measure program impact "... due to the fact that the assistance was given and received without proper planning for the achievement of specific goals, objectives, and targets within specified time periods. Our development efforts in the past have been scattered over wide areas and undertaken mostly as isolated attempts in raising the living standards of small groups here and there."

We, therefore, concluded that CRS is not discharging the program supervision responsibility required by Section 211.5(b) of AID Regulation 11. We believe, that to improve the FFW program, CRS should increase its planning, monitoring and evaluating efforts.

Comments

In response to our draft report, the mission and CRS informed us that they are presently involved in a two-phased evaluation of the FFW program: Phase I consists of selected asset and recipient profile studies, and Phase II involves the development of a monitoring and evaluation system. This multi-year activity will address the problem areas cited by us.

The mission stated that a summary report on the Phase I study findings is under preparation. The results of completed studies have indicated that the current approach of small individual projects on private land is having a favorable developmental impact on the rural poor, and is an effective way of assisting the truly needy in remote areas. Therefore, neither the mission nor CRS believes a redirection of the FFW program from small projects to fewer larger projects is warranted. They believe that, if the emphasis is shifted to larger projects involving the government, the program will face the attendent problems of political and bureaucratic interference.

As for improved management, both the mission and CRS believe the system developed under Phase II will provide better planning, monitoring and evaluation of the FFW program. Questionnaires to be used in the field testing of the proposed system have been developed. The field test is expected to be completed by the third quarter of fiscal year 1984. A two-person U.S. management consultant team will assist in the field test and also initiate a review of FFW reporting procedures and forms with the view to simplifying them. The mission expects that the monitoring and evaluation system will be fully operational by late 1984 or early 1985.

Audit Comments

In view of the actions underway and concerns about the problems that involvement with larger projects may cause, we have modified our draft recommendation as suggested by the mission.

> Recommendation No.2
>
> The Director, USAID/India should review the results of both phases of the current FFW evaluation study and require CRS to implement necessary corrective action that will permit the FFW program to be effectively managed and evaluated.

Record and Controls in Other Feeding Programs

We found significant problems and a lack of controls in the other feeding programs also,particularly at Ranchi. For example, we visited 34 distribution centers and found:

- Unacknowledged issues or differences between consignee issues and distributor receipts at 5 centers;
- Distribution to ineligible persons at 7 centers;
- Inflated or unsupported feeding claims at 9 of the 15 centers where distribution was observed by us;
- Inadequate stock or beneficiary records at 14 centers;

- Inventory differences at 8 centers;
- Program duplication at 3 school feeding centers; and
- Consumption in excess of authorized ration rates at 13 centers. (The reports of one consignee in the Calcutta zone showed excess consumption of 18,437 Kgs., of commodities between October 1981 and February 1983).

Such problems continue to occur because the distribution centers do not follow established procedures, and monitoring of the programs by consignees and CRS is not as effective as it should be. Overall, our selective review disclosed that 62,116 kgs of commodities valued at about $39,515, including estimated ocean freight, were unaccounted for or improperly used. Moreover, at all the MCH centers visited, we were informed that the food was being shared by the beneficiaries with ineligible family members.

Commenting on our findings, CRS stated that actions have been initiated to address the problems. However, in a majority of the cases, especially those relating to unaccounted for and improperly used commodities, action was still pending because field explanations had not been received.

Regarding food sharing in the MCH program, CRS informed us that a recent study it conducted had shown that child beneficiary weights had increased despite the sharing of food. Moreover, under its planned upgraded program, CRS will provide intensified education to participating mothers to inform them of the importance of giving supplementary food to the children. This will be followed by regular home visits by consignee nutritionists.

Conclusion

Improvements are needed in the management and supervision of the feeding programs to ensure efficient utilization of commodities and better compliance with AID policies. We have not made a separate recommendation here as implementation of Recommendation No. 1 will cover the subject.

CRS Has Made Significant Efforts To Upgrade Its MCH Programs

In addition to requiring the MCH feeding program to be integrated with other services, CRS has taken or has planned significant steps to upgrade the quality of the program.

In 1977 CRS launched a pilot Nutrition Education Project (NEP) to teach mothers of the child beneficiaries the value of nutritional foods, proper hygiene and preventive health care. The project was to cover 400 of the 2,500 MCH centers and about 15 percent of the 650,000 beneficiaries. According to CRS, the project upgraded nearly 700 centers, trained 3,000 community level workers to continue education of the mothers after the NEP, and made the program viable at the selected centers by generating sufficient local resources from the beneficiaries to meet expenses.

Subsequently, in July 1982, CRS developed the Targeted Maternal and Child Health Education Project (TMCHEP). Unlike the NEP, where the criteria for selecting children was their poor socio-economic condition, the TMCHEP is designed to limit feeding to severely and moderately malnourished children and pregnant and lactating mothers.

CRS expected to gradually upgrade its entire MCH program to the TMCHEP level within 5-1/2 years. The TMCHEP had, however, not started by the date of our audit because the GOI clearance for a proposed AID operational program grant had not been received. Nonetheless, CRS informed us that preparatory work has been started and that consignees and distributors are in the process of updating the beneficiary data in line with the targeting concept of TMCHEP.

CRS Loss/Damage Procedures and Records Were Adequate, But The GOI Instrumentalities Were Generally Not Honoring Claims

The GOI instrumentalities responsible for the clearance, storage and transportation of Title II commodities often refused to accept responsibility for losses that occur while commodities are in their custody. As a result, claims against them are either written-off or remain pending for long periods.

Section 211.9(e) of AID Regulation 11 requires that the cooperating sponsor make every reasonable effort to pursue collection of claims against the liable party for the value of commodities lost, damaged or misused. Cooperating sponsors who fail to file or pursue such claims shall be liable to AID for the value of such losses. However, they may elect not to file a claim if the loss is less than $300 and such action is not detrimental to the program. Sections 211.9(f) and (g) require the cooperating sponsor to promptly report all losses and to refund the claim amounts collected to the AID mission.

Our review disclosed that CRS maintains adequate records on losses and damages, reports them to the mission, and refunds claims collected when realized. CRS has made reasonable efforts to recover the value of commodities from the concerned GOI instrumentalities. For various reasons, these claims are seldom paid.

(1) Marine and Port Losses:

CRS promptly reports marine losses and submits related documents to its New York office as required by AID procedures. However, our selective review disclosed two marine and two port losses involving a total of 1,707 MT in commodities valued at approximately $544,579* where the reporting was considerably delayed because the port authorities failed to issue the required certificates or to provide the cargo (see Exhibit B). The delay jeopardizes chances of recovery from the carriers because the limitation for filing against the ocean carrier for lost or damaged cargo is one year from the date of discharge unless the carrier agrees to extend the time.

In the case of the two port losses totaling 979,367 kilos, claims totaling Rs. 2,942,138 ($294,214) have been filed against the port. However, the port authorities have refused to accept responsibility for the losses, and a recovery is doubtful.

* Conversion Rate of $1 = Rs.10 used throughout this report unless specified otherwise.

(2) Losses At FCI Level:

We found several instances where commodities were damaged or lost while in the custody of FCI. FCI, however, refused to settle the claims filed by CRS because it believes responsibility for lost or damaged commodities cannot be assigned to it under the Indo-U.S. Agreement under which the CRS Title II program operates. We also found the following large old claims still pending:

Quantity (Kgs)	Approximate Value ($)	Particulars
793,385	$255,450	Shortages found during the annual physical count made by CRS as of September 30, 1982 (see Exhibit C). The stocks were missing and neither FCI nor the port could account for them. Four years have elapsed since arrival of the ship. Claims totaling Rs.2,554,504 were filed by CRS.
65,821	66,182	Thefts of Title II commodities at FCI between April 1980 and April 1982. Police investigation reports have not been received, and no claims have been filed.
69,174	34,740	FCI claims to have mistakenly issued the stock to CARE, but CARE denies having received it. A claim for Rs.347,401 was filed against FCI in October 1982.
928,380	$356,372	

(3) Railway Transit Losses:

During the audit period, 348 claims were filed for losses. Of these the railways settled only 49 and repudiated 187. The remaining 112 were pending settlement at the time of the audit. CRS has tried to recover railway losses, but the railways have generally rejected responsibility for various reasons.

CRS officials informed us that claims against the railroad have been a perennial problem. For example, the railroad will not issue a railway receipt unless the statutory loading conditions are fulfilled. The conditions include loading of bags under railway staff supervision at a convenient time and complying with various packing conditions.

In addition to the transit losses discussed above, several years ago there were four instances where full wagon loads of commodities totaling 77,983 kilos were not delivered to consignees and the wagons were reported "missing". CRS filed claims totaling Rs.318,082 ($32,808) against the railroad which are pending. CRS provided us with the current status of these claims.

Commodity	Quantity (Kgs.)	Particulars
Bulgur	17,214)	Railroad has sold some commodities for Rs.39,500. The CRS claim is for Rs.112,922. FCI has asked CRS to accept the sales proceeds in settlement of its claim. Refund pending.
Bulgur	22,680)	
Bulgur	22,977	Stock still untraceable.
Oil	15,112	14,522 kgs., were subsequently delivered to the consignee. CRS has filed an amended claim of Rs.5,290 for the unaccounted for 590 kgs.
	77,983 kgs.	

(4) Losses by Consignees and Distributors:

We noted many instances where CRS did not file any claims against the consignees even though the loss was in excess of the $300 limit. Some specific examples of such losses were provided to CRS and others are also discussed below and on pages 14 and 15 of this report. Most of the cases where claims were filed were later written-off with USAID approval.

Recommendation No.3

The Office of Food for Peace, AID/W (FVA/FFP) should review the matter of unsettled claims resulting from GOI instrumentalities refusal to accept liability for negligent losses of Title II commodities and make a determination if the write-off of such losses is acceptable under AID Regulation 11 procedures, or if not, advise the mission of what is or will be required of CRS to comply with the intent of the regulation.

Recommendation No.4

The Director, USAID/India should follow-up with CRS on the marine, port, FCI and railroad losses and outstanding claims enumerated above to ensure that they are actively and forcefully pursued in accordance with AID Regulation 11 procedures.

CRS Did Not Take Action To Recover The Cost of Improperly Used Commodities:

Our review of records and reports disclosed several instances of improperly used commodities totaling 1,142,836 kilos, costing about $360,338. In general, CRS did not pursue recovery action against the consignees as required by Section 211.9(e) (2) of AID Regulation 11.

(1) Nellore Diocese:

Despite clear indications of improper use of 16,753 bags (379,958 kgs.) of bulgur valued at about $89,860, CRS did not file a claim against the consignee. Moreover, although the misuse was discovered in September 1980, it was not reported to the mission until February 1983.

In 1980 CRS approved a FFW project for the construction of 675 houses for 1979 cyclone victims in the Nellore diocese. Four hundred and eleven of the houses were to be constructed by the Diocese of Nellore Social Service Society through eight contractors. The remaining 264 were to be constructed directly by five parishes. CRS supplied 26,633 bags (604,036 kgs.) of bulgur for the project.

A September 1980 CRS review disclosed that the 264 houses were satisfactorily completed by the five parishes using 9,880 bags of bulgur. Of the remaining 16,753 bags, which were received by the Society directly for distribution through the contractors, CRS reported:

- No stock register was maintained for receipt and distribution.
- Attendance registers were kept for only some centers and did not appear to be genuine.
- Beneficiaries interviewed said they did not receive any bulgur or received only a fraction of the quantity claimed to have been distributed to them.
- In some places only a portion of the bulgur was distributed to beneficiaries.
- Some contractors were given more than their allotted quantity of bulgur.
- Statements made by contractor staff members were inconsistent and unsupported.

The CRS reviewers were convinced that a major portion of the bulgur sent to Nellore did not reach the beneficiaries and that the small quantities distributed were to cover up the misuse. The reviewers concluded "there was a gross misuse of funds and food by the Diocesan Society."

The Diocese refuted the findings, and CRS did not file a claim. However, in March 1983 CRS arranged for another review of the situation by a chartered accountant. The chartered accountant reported that based on physical verification of the 675 houses, he believed that the food had been generally used for the intended purpose subject to his comments that: (a) FFW program documentation was weak, (b) records shown to him appeared to have been prepared at a later date, and (c) only 64 of the 147 beneficiaries interviewed confirmed the receipt of food but did not remember the quantity received.

CRS transmitted the report to the mission in May 1983 and asked that it be accepted as an accounting for the commodities. However, the mission questioned the report's acceptability because (a) the consignee records did not provide for realistic commodity accountability, and (b) applying beneficiary acknowledgement of food distribution results in a shortage of approximately 15,000 bags.

Commenting on our draft report, CRS acknowledges that the documentation was weak, records appeared to have been written at a later date, and only 64 (43%) of the 147 beneficiaries acknowledged receipt of the food. It, however, felt that the chartered accountant's report should be accepted because it verifies that 675 houses were built and because the issue raised is sensitive.

(2) Sion, Bombay Consignee:

A CRS review of the consignee records disclosed 24,214 kilos of commodities (904.5 bags of milkpowder, 67 bags of bulgur and 104 cases of oil) that could not be accounted for between September 1978 and November 1979. CRS informed the mission about the situation in November 1982 and later filed two claims totaling Rs. 233,015 ($23,302) against the consignee. The claims are still pending.

(3) Siliguri Consignee:

A 1981 CRS review disclosed that the consignee could not account for 2,899 bags (65,749 kgs) of bulgur costing $16,661:

- There was no record of distribution for 960 bags from a December 1979 consignment. Subsequently, in response to our audit inquiry, CRS furnished a certificate from the Bishop that the quantity was distributed for emergency feeding.

- A physical inventory disclosed a shortage of 1,939 bags compared with the book balance. Thus far, the matter has not been resolved and CRS has not filed a claim against the consignee.

(4) Other Instances:

In addition, as shown in Exhibit A, we found 672,915 kilos of commodity descrepancies totaling approximately $230,515.

Conclusion:

CRS has not taken prompt or adequate action to file claims and recover the cost for commodity descrepancies as required by Section 211.9(d) and (e) of AID Regulation 11.

The mission accepted our recommendation to follow-up on the specific commodity descrepancies found and informed us that CRS has furnished a list of all claims pending as of December 31, 1983 and has also agreed to furnish a quarterly updated list of pending claims in the future. In turn, the mission has revised its loss reporting and follow-up procedures to ensure that such cases are settled expeditiously.

Recommendation No.5

The Director, USAID/India should review the acceptability of CRS actions in relation to Sections 211.9(d) and (e) of AID Regulation 11 for those instances of commodity descrepancies noted above, and claim the cost of commodities that cannot be accounted for in those cases where CRS did not follow the requirements of AID regulations.

CRS Internal Review Reports Do Not Disclose The Extent of Management and Implementation Problems:

CRS internal review reports submitted to the mission do not disclose the extent or seriousness of problems existing in the program. As a result, they do not permit the mission to make an accurate assessment of program effectiveness in accordance with Section 211.10(b) (4) of AID Regulation 11.

CRS internal review reports on the zonal offices are quite detailed. However, the consolidated annual report furnished to USAID mentions only relatively minor problems, and statements were generally limited to the adequancy of record keeping at the zonal offices. The results of visits to the consignees and distributors were not included in the consolidated reports. The consolidated reports did not include the scope and extent of the internal reviews nor did they highlight many of the problems we found in our zonal office program reviews.

Chapter 14, Section E2 of AID Handbook 9 requires that voluntary agencies and missions mutually agree, in writing, on internal review procedures to be followed, the minimum frequency of internal reviews, a schedule for conducting them and for submitting reports to both the AID mission and AID/Washington. These requirements have not been met.

Moreover, Section 211.5(c) and 211.10(b) (4) of AID Regulation 11 and Chapter 14 of AID Handbook 9 require voluntary agencies to (a) conduct comprehensive internal reviews to "cover all areas of a PL 480, Title II program," and (b) sumbit reports of the results in sufficient detail to enable missions to assess its effectiveness in planning, managing, controling and evaluating the program. The procedures also require missions to ensure that (a) the requirements for internal reviews are fully met, (b) the reviews cover all areas of the program, and (c) the corrective actions are taken on all recommendations in the report.

At the conclusion of our audit we were informed that CRS and the mission "have discussed the mutually agreed upon comprehensive internal review procedure. That procedure, beginning CY 1984, will cover two zones and CRS headquarters and the comprehensive report will be submitted to USAID by April 30, 1985. A recommendation on this subject can be closed after the management consultant firm has completed its work to establish formal guidelines and procedures to be used by CRS internal reviewers during their reviews."

Recommendation No.6

The Director, USAID/India should require CRS to develop mutually agreed upon comprehensive internal review and reporting procedures in accordance with Chapter 14, Section E, of AID Handbook 9.

Program Supervision

CRS program supervision has not been adequate to ensure that Title II commodities were used effectively and in accordance with AID regulations. CRS has 8 field reviewers (FRs) in the two zones visited by us who are responsible for monitoring the programs of 65 consignees, 3,221 distributors and thousands of FFW projects. Our review of the FR reports and other related documents and records disclosed the following weaknesses:

- several important program areas were not covered;
- instances where exceptions were not taken to some problems, or the problem areas were not fully developed, or the information was contradictory to other data available in the reports;
- programs having many problems were termed as operating satisfactorily;
- control records for following-up on deficiencies were either not kept or were incomplete; and,
- information was not available to show if adequate corrective actions were taken on deficiencies noted.

Section 211.5(b) of AID Regulation 11 requires voluntary agencies to provide adequate supervisory personnel for the efficient operation of the program, including end-use checks. Subsequent to the completion of our audit, CRS informed us that it had initiated or planned several actions to improve program supervision to comply with the regulation. These include development of better controls and procedures, stricter review and follow-up of FR reports and consignees responses, revision of report formats, planned training of the FRs, and a requirement for consignees to review their own programs.

In view of this and because improvement of program supervision would be a prerequisite to adequate implementation of Recommendation No.1, we have not made a separate recommendation here.

Accountability and Controls Over Program Generated Funds

Consignees and distributors had not kept adequate accountability records for program generated funds, and CRS' monitoring of such funds is not effective. Controls are lacking to ensure the funds are used for authorized purposes.

Funds are generated in the Title II program from the sale of empty containers and from feeding program charges. Section 211.5(i) of AID Regulation 11 specifies that the authorized costs for which these funds can be used include transportation, storage and handling of commodities, construction of warehouses, and payments to personnel employed by voluntary agencies in support of Title II programs. They may also be used for other program expenses specifically authorized by AID.

Consignees and distributors generate funds from the sale of containers as well as from transport, handling and service charges, registration fees and supervision charges.

Records available from the two Madras zone consignees visited by us show collections of Rs. 3.6 million ($360,000) from such sources during the audit period. In addition, amounts ranging from Rs.75 to Rs.920 per project unit (well, house, etc.) were also being collected from FFW project beneficiaries, but details on the total amount collected from this source were not available. Generally, we could not determine if the funds were used for authorized purposes because of unreliable or incomplete accountability records and lack of supporting documentation. A consignee in Ranchi and his distributors visited by us had not kept any record of collections.

Overall, we noted that 21 of the 39 consignees in Madras and 22 of the 24 consignees in Calcutta had not furnished the program charge reports to CRS. Therefore, it is possible that similar accountability problems may also exist with consignees and distributors not visited by us.

Our previous audit report (No.5-386-79-7 dated February 28, 1979) had also commented on this problem and recommended that proper collection and expenditure records should be kept to ensure that funds are used for authorized purposes. The mission referred that recommendation to AID/W who initially suggested that periodic reports on program funds be submitted to the USAID. However, as the mission felt this would be unworkable, AID/W then required that it determine the best method of keeping accountability records, and be completely satisfied that the method would be sufficient to assure proper use of program generated funds. We closed the recommendation on the basis of mission assurances that proper records will be kept by the consignees and distributors, and would be reviewed by CRS and mission officials during field visits. This has not happened.

CRS officials agreed with the finding and stated that corrective action will be taken. Initial discussions have been held with two chartered accounting firms about the development of an appropriate system of accountability and the training of staff.

Recommendation No.7

The Director, USAID/India should require CRS to establish and implement an accounting and monitoring system for program generated funds that meets the requirements of Section 211.5(i) of AID Regulation 11.

OTHER PERTINENT FINDINGS

Warehousing Conditions and Practices Were Unsatisfactory at Calcutta

Section 401 of PL 480 requires that adequate storage facilities be available in the recipient country to prevent spoilage or wastage of Title II commodities. In Calcutta, we found unsatisfactory storage conditions and practices which also contributed to the unauthorized diversion of commodities.

In visiting 15 of the 26 sheds in two FCI warehouses in Calcutta, we found the sheds dirty and dusty with cobwebs visible on the bags. Dunnage had not been provided, and as a result food was spilling from the bags. Stacking was improper and we could not count the stock in 10 of the 15 sheds visited. We also noted that:

- Stocks of various voluntary agencies were mixed together in the stacks. Consequently, physical inventory of commodities could not be compared to the book balances of the individual agencies.

- There were differences between the balances shown on CRS records and FCI records. There were also differences between quantities shown on the bin cards and the quantities counted by us.

- 25,447 kgs., (1,122 bags) of corn soy milk (CSM) received between May 1979 and March 1980 were still in storage and had been declared as unfit for human consumption in April 1983. CRS has issued a claim for Rs.93,394 ($9,339) against FCI for this loss.

- Cartons of vegetable oil stored in three sheds of the Brooklyn warehouse were leaking and the floor was covered with oil. Subsequently, CRS had the usable oil repackaged and issued. A claim has been filed against the carrier for this as well as the oil lost from the leaking cans.

CRS Comments

CRS officials acknowledged that storage conditions in the Calcutta warehouses are not good. However, they also pointed out that FCI is not a CRS contractor but an independent GOI agency handling Title II commodities under the auspices of the Indo-U.S. Agreement. Therefore, since CRS does not have supervisory responsibility over FCI, and its past initiatives have not resulted in substantial improvements, they feel the issue needs to be discussed at a higher level.

Mission Comments

In response to our draft report, mission officials informed us they are aware of the poor conditions at the Calcutta port and FCI warehouses. However, the following events or actions have taken place which the mission believes should improve the situation:

- The former FCI manager was replaced by a person who seems more responsive to the warehousing problems.

- Because of the suspension of the Ranchi program and problems with FCI Calcutta, CRS has reduced its wheat allocation by 46 percent. Moreover, FCI, in consultation with CRS, began in November 1983 to transfer bulk wheat consignments to a modern storage facility. An inspection showed that this storage facility was clean and commodities were properly stacked and maintained.

- Mission officials visited the Calcutta port and warehouse facilities and discussed the problems with FCI officials. Various solutions were outlined and FCI agreed to pursue them. Both CRS and the mission plan to actively monitor this aspect in the future.

Audit Comments

Because of the actions being taken and mission assurance to closely monitor the warehousing problems at Calcutta, we are not making a recommendation. We suggest, however, that if the problems continue, the mission and CRS should review the feasibility of using an alternative port and FCI facilities.

Procedures For Estimating Commodity Requirements Need Improvement

1. Calls Forward (Commodity Orders)

In accordance with the procedure specified in AID Handbook 9, Chapters 6 and 7, voluntary agencies submit annual estimates of requirements (AER) to the local AID mission for review and transmittal to AID/W. After AID/W approval, the AER represents AID's commitment to supply the stated quantities for the Title II program. Subsequently, the voluntary agencies submit requests for shipment of commodities, referred to as calls forward, against the approved AER. Normally, calls forward are submitted to cover program requirements for 3 months.

To compute the quantities to be called forward, CRS first determines total commodity availability in the country and then deducts this amount from estimated consumption for the period. Our review disclosed that CRS estimates of quantities to be called forward were inflated because:

- CRS does not include as part of commodity availability quantities that were either received or due to be received after the cut-off date.

- CRS did not make appropriate adjustments in the call forward quantities for actual inventory on hand which turned out to be higher than projected in the AER.

As a result, for example, the quantities available for distribution in 1982 exceeded the requirements:

	Quantity (in MT)		
	Per AER	Actual Net Availability	Excess Available
Grains and Other Food (CSM,WSB)	132,538	138,812	6,274
Oil	8,445	9,468	1,023
	140,983	148,280	7,297

CRS officials agreed with our observation and stated that steps have been taken to improve the procedures which will be followed in future submissions. Also, CRS made appropriate adjustments in its 1983 4th quarter call forward because of higher actual inventories. In addition, in February 1984, the mission advised AID/W that CRS has about 20,500 MT of commodities costing $6 million in excess of what was projected in the 1984 AER. This excess will be adjusted against the remaining quantity to be called forward in 1984.

2. Commodity Allocations

CRS internal reviewers reported that proper allocation procedures were not being followed by the zonal offices. The zonal offices later stated that necessary corrective action had been taken. However, we found that the offices were still not considering distributor-level inventories, stocks in transit, or stocks on hand in making commodity allocations.

For example, in Calcutta we found that some consignees who already had several years of vegetable oil on hand were allocated additional oil while some others who had little or no oil were not allocated anything.

Consignee	Total FY 1983 Oil Requirement (Kgs.)	Stock Balance of Oil as on 9/30/82 (Kgs.)	Additional Allocation of Oil During 10/1/82 - 3/31/83 (Kgs.)
Tura	13,650	39,196	11,968
Raiganj	18,900	45,679	13,393
Kohima	6,825	18,864	6,812
Imphal	6,825	11,549	6,812

Overall, our analysis disclosed that 16 of the 24 consignees at Calcutta had excess oil, grains or both. Similarly, in Madras, we found that instead of program needs for only six months, some consignees received allocations sufficient for 7 to 32 months while others received allocations for only 3 to 4 months.

Commenting on our findings, CRS officials stated that steps have been taken to avoid issuance of stocks in excess of program needs. These include development of necessary formats and controls over allocations, consideration of consignee inventory levels in making new allocations, cancelation of some consignee oil allocations and revision of other allocations to avoid excess inventory. We have, therefore, not made any recommendation.

Improvements Are Needed in CRS' Reporting to AID

AID requires the following periodic reports on the operations of a Title II program:

1. Commodity Status Reports (CSR) which show commodities received, distributed and available in stock.

2. Recipient Status Reports (RSR) which show the number of actual recipients and the food distributed to them.

CRS has submitted these reports to AID as required and has kept documents to support the figures shown in the reports. We noted, however, certain areas where improvements are needed to make the reports more accurate.

Commodity Status Reports:

Adjustments reported in these reports were not being regularly reconciled or fully explained, and the reported inventory was inflated to the extent of outstanding adjustments. In addition, commodities returned by the distributors were being shown as consignee's receipts. This procedure resulted in the reporting of commodity distributions twice - once when the commodities were initially supplied to the distributor, and again after the returned commodities were issued to another distributor. The total quantity of commodities returned by the distributors was not readily available, but CRS officials did not believe it would be large. Finally, CRS did not report the September 30, 1981 physical inventory as required. Although the physical inventory was reported in the 1982 report, we found that adequate action was not taken to resolve unexplained differences observed during the physical count.

Recipient Status Reports:

The accuracy of the RSRs was affected by cases of incomplete and inaccurate reporting by the consignees. For example, we found that some consignees were reporting the approved level of feeding and not the actual number of beneficiaries fed.

We also noted cases where commodity report issues did not agree with the recipient report receipts. In some cases, there were large differences where receipts exceeded issues, or vice versa. Similarly, the transfers of commodities between distributors, and commodities returned by the distributors to consignees were not correctly reflected. As a result, the RSR inventory was inflated and commodity accounting at the distributor level was incorrect.

CRS officials generally agreed with our observations and stated that appropriate steps have been or will be initiated to address the problems. Regarding the unexplained inventory differences and other specific observations, CRS has asked consignees for explanations which were pending at the conclusion of our audit. In view of the CRS actions, we have not made a recommendation but suggest mission follow-up to determine if necessary improvements have been made to ensure accurate reporting.

AID Markings were not Being Obliterated from Empty Containers Prior to Sale

Section 211.5h(2) of Regulation 11 requires that if the empty containers are sold for commercial use, the U.S. Government markings must be obliterated prior to sale. Although CRS has issued instructions to this effect, we found the distributors were generally not following the instructions. CRS officials informed us that they will issue fresh instructions to the field stressing compliance with the AID regulations on empty containers.

Details of Improperly Used Commodities

RAF No.	RAF Page	Grains (Kgs.)	Oil (Kgs.)	REMARKS
Food For Work Program				
1	14	124,196	4,296	Stock records not available.
	14	50,395	1,740	Unauthorized use of commodities.
	37	36,968	1,320	Stock records not available.
2	11	-	1,593	Excess consumption.
Annex. A (14)*		330,560	17,846	Consignee issues unacknowledged, unauthorized uses of commodities, stock records not available or unreliable, recorded information was conflicting, duplicate issues, inventory shortages, actual distribution less than the recorded quantity, and commodities used for a project on which work was not started.
Annex. B (11)*		37,491	4,394	Incomplete or unreliable stock records, recorded information was conflicting, consignee issues not acknowledged, and inventory shortages.
Total		579,610	31,189	= 610,799

Details of Improperly Used Commodities

RAF No.	RAF Page	Grains (Kgs.)	Oil (Kgs.)	Remarks
Other Programs				
1	33 & 34	113	717	Consumption claims inflated.
2	22	7,643	10,794	Consumption in excess of approved ration rates during October 1981 and February 1983.
	Annex.C (1,2)	3,538	440	Commodities diverted for ineligible purposes.
	Annex.C (3)	794	485	Consignee issues not acknowledged.
	Annex.C (4)	1,111	-	Inventory shortages
	Annex.C (4,5)	2,177	42	Consumption in excess of approved ration rates during FY 1982.
	Annex.C (6)	2,268	304	Consumption claims questionable for the period October 1982 to March 1983.
	Annex.C (7,8)	3,856	24	Consumption in excess of approved ration rates, and inventory shortage.
	Annex.C (11)	1,746	21	Consumption in excess of approved ration rates.
	Annex.C (13,14,15)	9,231	129	Consignees' issues not acknowledged, consumption in excess of approved ration rate, distributor had not kept any stock records, inventory shortages.
	Annex.C (16)	1,406	105	Consumption in excess of approved ration rates, inventory shortage and unauthorized use of commodities.

Details of Improperly Used Commodities

RAF No.	RAF Page	Grains (Kgs.)	Oil (Kgs.)		Remarks
Other Programs					
2	Annex.D (1)	567	63		Consumption in excess of approved ration rates.
	(3)	4,638	-		Consignee issues not acknowledged, inventory shortages, and consumption in excess of approved ration rates.
	(4)	772	-		Consignee issues not acknowledged, and inventory shortages.
	(5)	2,880	31		Consumption in excess of approved ration rates.
	Annex.E (1)	5,398	165		Inventory shortage and consumption in excess of approved ration rates.
	(2)	658	-		Consumption in excess of approved ration rates.
Total		48,796**	13,320	=	62,116
Total of all Programs		628,406	44,509	=	672,915

* Net quantity after minor adjustments made based on CRS explanations.

** Total quantity of 48,796 Kgs. comprised of 23,485 Kgs. corn soy milk and 25,311 Kgs. bulgur wheat.

NOTE: We have used the FY 1981 prices for computing the value of commodities. In the FFW program, value was computed by averaging the 1981 prices for wheat, bulgur and corn.

EXAMPLES OF MARINE AND PORT LOSSES

	Shipment No., & Arrival Date	Commodity	Loss: Quantity (Kgs.)	Loss: Value (Rs.)
			295,770 Marine	919,521
1.	2951, 5/26/80 Kandla	Bulgur	623,949 Port	1,939,859
			919,719	2,859,380

According to the surveyor's tally, the total shipment of 128,000 bags was accounted for as follows:

	(In Bags)
Sound	125,758
Slack/Torn	1,192
Shortlanded	1,050
	128,000

However, according to the accountability records at the time of our audit, only 87,448 bags were sound. Another 16,166 bags were damaged or empty, and 24,386 bags had not been delivered from the port. Subsequently, there were further changes in the tally which finally read:

Sound bags	87,448
Empty bags (reconstitution loss)	210
Shortlanded	12,831
Damaged bags to be written off	23,486
Unserviceable bags offered by the port	4,025
	128,000

The port authorities did not issue a certificate for the shortlanded bags until the time of our audit. The damaged cargo was declared unfit for human consumption and was reportedly lying at the Kandla port. According to CRS officials, delays in dispatch of the cargo occurred because of a dispute between the port and FCI over the payment of demurrage charges. This dispute lingered on for over two years before the port waived the demmurage charges.

Subsequent to the completion of our audit, CRS informed us that a shortlanding certificate for the 12,831 bags was finally obtained from the port and sent to its New York office on March 30, 1983, almost three years after the ship's arrival. New York will take claim action for the 12,831 shortlanded bags and 210 empty bags.

CRS informed us that an inland loss claim for Rs.1,939,859 ($193,986) was filed against the FCI on September 2, 1983 for the 23,486 damaged bags and the 4,025 unserviceable bags.

	Shipment No., & Arrival Date	Commodity	Loss Quantity (Kgs.)	Loss Value (Rs.)
2.	2890, 10/30/79 Calcutta	Bulgur	377,304 Marine	1,409,170
			355,418 Port	1,002,279
			732,722	2,411,449

The independent surveyor's March 24, 1980 report showed that 172,934 bags were discharged against the bill of lading quantity of 170,991 bags; an excess of 1,943 bags. However, the survey report mentioned that difficulties were experienced in obtaining an accurate count; therefore, the bag tally recorded during discharge should be considered as only near accurate. However, the later delivery survey report dated March 3, 1981 showed the following:

Sound Quantity delivered	138,684 Bags	
Shortage	16,636 Bags	(377,304 Kgs.)
Quantity lying at port	15,671 Bags	
	170,991 Bags	

CRS in New York assigned the claim rights for the 16,636 bags to the USDA (CCC) on July 8, 1982.

The USDA made a claim of $140,917 against the steamship company. The Company however, disputed the claim on the grounds that the stevedore report showed delivery of more than the manifested number of bags. The company further maintained that "total chaos" existed in the port at the time of unloading and the shortage could be attributed to the problems encountered in making deliveries after unloading. The USDA referred the matter to CRS for clarifications on March 3, 1983. CRS/Calcutta, in turn, notified New York on July 14, 1983 that there might have been congestion in the port, but it could not be termed total chaos. The matter is still pending. The 15,671 bags (355,418 Kgs.) lying at the port were never delivered to FCI. On June 3, 1982, the FCI requested the port authorities to issue a shortlanding certificate for the bags, but this was never done. Finally, FCI issued a letter on December 14, 1982 claiming Rs.1,002,279 for this shortage from the port authorities, but has not received an answer.

CRS reported the matter to the USDA and was advised to consider the shortage an inland loss and report it to the mission. In a letter dated March 14, 1983 to New York, CRS stated that the matter was being pursued with FCI, but no further correspondence after that was available in the files. Subsequent to the completion of our audit, CRS informed us that a claim is being pursued with FCI. The matter is still pending.

	Shipment No., & Arrival Date	Commodity	Loss Quantity (Kgs.)	Loss Value (Rs.)
3.	2807, 3/11/79 Calcutta	Wheat Soy Blend (WSB)	33,725	133,072

1,487 bags (33,725 Kgs.) of WSB were shown as shortlanded in the independent survey report. The loss could not be included in the marine claim because the port would not issue a shortlanding certificate because of a dispute about the cargo. The port authorities stated that barges had landed the cargo, but the bags bearing the relevant contract number were not available.

Subsequently, in August 1981, the port informed CRS that the cargo had been declared unfit and dumped in the sea. When queried as to how the shortlanded cargo became unfit, the authorities stated they had informed FCI in April 1981 that the bags lying in the port uncleared were torn and damaged. FCI, however, denied that it was ever informed about the matter. As a result, CRS could not file a claim against FCI, and the port refused to accept responsibility.

The port did finally give a port health officer's certificate attesting that the commodities were unfit. CRS officials believe the loss occurred due to negligence of the carriers because the commodities were in the custody of their bailee, i.e., the port. On that basis, CRS sent the PHO certificate to New York in June 1982 for necessary claim action against the carriers.

	Shipment No., & Arrival Date	Commodity	Loss Quantity (Kgs.)	Loss Value (Rs.)
4.	2908, 1/17/80	Bulgur	20,661	41,888

1,241 bags of bulgur were shown as shortlanded in the May 20, 1980 survey report, but there was a dispute between the port and FCI about the actual number of bags landed. According to a CRS memo of December 28, 1981, the port records showed a shortage of only 330 bags. After a considerable lapse of time, the port traced the other 911 bags, but they were found damaged. Subsequently, they were declared unfit and were reportedly destroyed by the port without CRS' knowledge or approval. An amended survey report was issued on February 15, 1982. A public health officer's certificate was eventually received by CRS and forwarded to New York on May 20, 1982 for filing a claim.

EXHIBIT C

DETAILS OF MISSING STOCKS AT FCI/CALCUTTA

Shipment Number and Arrival Date	Commodity	Missing Quantity (Kgs.)	Claim Amount (Rs.)
2830 - 5/79	Corn Soy Milk	8,097	Rs.
2834 - 5/79	Corn Soy Milk	42,548	
2894 - 1/80	Corn Soy Milk	9,730	
		60,375	221,524
2805 - 4/79	Wheat Soy Blend	25,174	
2811 - 3/79	Wheat Soy Blend	93,012	
		118,186	416,595
2805 - 4/79	Bulgur	89,473	
2814 - 3/79	Bulgur	30,413	
2834 - 5/79	Bulgur	40,483	
2890 - 10/79	Bulgur	355,418 1/	
2930 - 2/80	Bulgur	57,584	
		573,371 2/	1,745,767
2830 - 5/79	Corn	32,206	
2883 - 10/79	Corn	9,247	
		41,453 3/	170,618
	GRAND TOTAL	793,385	Rs. 2,554,504
	EQUIVALENT Dollars ($1 = Rs.10/-)		$ 255,450

1/ This loss and the related claim of Rs.1,002,279 has also been reported in Exhibit B, serial No. 2.

2/ Against the shortage of 573,371 kgs., CRS filed claims for 641,526 kgs. on the basis of the untraceable port balances per the survey report and as certified by FCI.

3/ Against the quantity of 41,453 kgs., CRS filed claims for 81,013 kgs., based on the untraceable port balances per the survey report, and as certified by FCI.

LIST OF RECOMMENDATIONS

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LIST OF REPORT RECIPIENTS

USAID/India	
Director	5
AID/W	
Bureau For Asia	
Assistant Administrator (AA/ASIA)	2
Office of Bangladesh and India Affairs (ASIA/BI)	1
Audit Liaison Officer	1
Bureau For Food For Peace and Voluntary Assistance	
Assistant Administrator (AA/FVA)	2
Office of Food For Peace (FVA/FFP)	3
Audit Liaison Officer	1
Bureau For Program and Policy Coordination	
Office of Evaluation (PPC/E)	1
PPC/E/DIU	2
Bureau For Management	
Assistant to the Administrator for Management (AA/M)	1
Office of Financial Management (M/FM/ASD)	2
Directorate For Program and Management Services	
Office of Management Operations (M/SER/MO)	1
Office of Contract Management (M/SER/CM)	1
Bureau For External Relations	
Office of Legislative Affairs (EXRL/LEG)	1
Office of General Counsel (GC)	1
Office of Public Affairs (OPA)	2
Office of Inspector General:	
Inspector General (IG)	1
Communications and Records Office (IG/EMS/C&R)	12
Policy, Plans and Programs (IG/PPP)	1
Regional Inspectors General for Audit:	
RIG/A/W	1
RIG/A/Nairobi	1
RIG/A/Manila	1
RIG/A/Cairo	1
RIG/A/Latin America	1
RIG/A/Dakar	1
Other	
RIG/II/Karachi	1
New Delhi Residency, RIG/A/K (AAP)	3