

Memorandum

DATE: September 30, 1980
 REPLY TO: *Jack M. Rose*
 ATTN OF: Jack M. Rose, AAG/LA

SUBJECT: Memorandum Audit Report on the Food for Peace Program in Chile, Audit Report No. 1-513-80-20

TO: Mr. Richard Apodaca
 AID Representative
 USAID/Chile

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We have made a limited-scope audit of the Food for Peace Program in Chile. The purpose of our audit was to see how well the private voluntary organizations had planned, coordinated, and executed the program and how well A.I.D. had monitored their performance.

The audit covered the 30-month period ended March 31, 1980, and included tests of records and files in the offices of A.I.D. and the voluntary organizations in Chile. We visited a total of 17 warehouses, 11 distribution centers, a repackaging plant, major ports, and six Food-for-Work projects in Antofagasta, Puerto Montt, Puerto Varas, San Antonio, Santiago, Temuco, and Valparaiso. In the course of the audit we interviewed 100 people involved in the management of the program.

In our opinion, the Food for Peace Program in Chile is, in the context of the worldwide program, a model of good management. All of the facilities we visited were adequate for their intended use. Warehouses were secure, clean, dry, well arranged, and free of rodents. Inventory test counts revealed no discrepancies between stock on hand and recorded balances. Kitchens and storage areas at distribution centers were clean and orderly. The voluntary agencies employ a total of 20 field inspectors to make on-site inspection of warehouses and distribution centers.

Losses were minimal. Voluntary agencies were reporting losses as required and making claims against carriers. Two full time Chilean professionals on A.I.D.'s staff monitor the program continuously. In fiscal years 1978 and 1979, they made a total of 43 field trips in each of which numerous warehouses and distribution centers were inspected. Trip reports indicate that these inspections disclosed only minor deficiencies which were corrected on the spot. (Budgetary restraints have, so far, prevented making field trips in 1980.) Superior program results speak for the quality of A.I.D. monitorship.

Voluntary agencies make the required annual self audits, the last such being for fiscal year 1979. During the period we reviewed, deficiencies noted in self audits were usually minor. The only exception was a special self audit of Catholic Relief Services (see page 4).

Results of the Auditor General's last review of the Food for Peace Program in Chile appear in Report No. 1-513-79-8, dated April 18, 1979. No deficiencies were reported.

Buy U.S. Savings Bonds Regularly on the Payroll Savings Plan



Public Law 480 created the Food for Peace Program in 1954. The law was originally enacted primarily as a means of disposing of agricultural surplus commodities. It has since been amended from time to time. Emphasis in the amended versions has shifted to humanitarian purposes. Even so, the law continues to require that food shipped under its provisions be excess to domestic needs. The law consists of three titles:

-- Title I authorizes the sale of agricultural commodities to friendly countries on long-term credit at low interest rates.

-- Title II authorizes donations of food for disaster relief, combatting malnutrition (especially in children), and promoting economic and community development.

-- Title III authorizes the sale of agricultural commodities to poor countries under favorable terms as an incentive to develop multi-year plans to improve the lot of the poor. Funds generated by the resale of such commodities which are used for agreed purposes - health and nutrition programs, for example - reduce the participating country's obligation to the United States.

An estimated 25 percent of Chile's population lives in extreme poverty. Of the 1,180,000 registrants in the National Health Service under 7 years old, 144,000 (12 percent) are thought to suffer from malnutrition. Chile's health and nutrition experts believe that 40 to 50 percent of infant deaths result directly or indirectly from malnutrition.

The Food for Peace Program in Chile dates back to 1956. Over the years, A.I.D. and its predecessors have provided some \$455 million worth of Title I and Title II assistance to Chile.

All Food for Peace commodities shipped to Chile during the 30-month period covered by this audit were donated under the provisions of Title II. The total value was \$16,914,000:

Fiscal 1978	\$6,054,000
Fiscal 1979	7,820,000
Fiscal 1980 to March 31	3,040,000

The Program is managed by three American Voluntary Agencies: The Cooperative for American Relief Everywhere (CARE), Catholic Relief Services (CRS), and the Seventh-Day Adventist World Services, Inc., (SAWS). CRS works through its Chilean affiliate, CARITAS. The SAWS operates through its Chilean affiliate, the Adventists' Philanthropic and Social Assistance Agency. Having no Chilean affiliate, CARE works directly with elements of the Chilean government.

Food for Peace commodities enter the country through six ports, the largest of which are San Antonio and Valparaíso in Central Chile. The

distribution network consists of 48 regional warehouses strung along Chile's 2,600 mile coastline from Iquique in the north of Punta Arenas in the south. From these 48 warehouses, food is dispatched to an ever-changing number of distribution centers and Food for Work projects. (In early 1980, there were some 3,924 distribution centers and 1,292 active Food for Work projects.) In some cases, food moves directly to the feeding centers; in others, it is channeled through government warehouses.

During the audit period, Food for Peace commodities were distributed to Chilean beneficiaries under six programs: Minimum Employment, School Feeding, Nursery Feeding, Children in Institutions, Malnourished Child Feeding, and Food for Work. CRS's Minimum Employment and CARE's School Feeding Programs were discontinued in fiscal 1979. Distribution of food under CARE's school feeding program will continue until residual stocks are exhausted.

Before these two components were phased out, Food for Peace reached a total of over 1.7 million beneficiaries in Chile. (The population of Chile, according to the 1970 census was 8,884,768.) Even after the elimination of Minimum Employment and CARE's School Feeding programs, Food for Peace will reach over half a million beneficiaries. (For details, see Exhibit A.) Summary figures of actual beneficiaries during the audit period show that the half million mark had already been surpassed in the first half of fiscal 1980:

Fiscal 1978	1,735,091
Fiscal 1979	883,767
Fiscal 1980 to March 31	669,709

The efforts of the three voluntary agencies are carefully coordinated. One means of doing so is the Mechanized Data System which was inaugurated in 1978. This system maintains an up-to-date national register of warehouses and feeding centers by agency and region. But its primary function is to generate the information needed to manage commodities at the national level:

1. Food requirements by agency, region, and warehouse.
2. Beneficiaries by agency, region, and program.
3. Stock on hand by agency, warehouse, and commodity.
4. Procurement and shipping by agency.
5. Commodity status by agency and warehouse.

In other words, the Mechanized Data System generates all information needed at the national level to procure and distribute commodities. It also provides a means of preventing overlap between voluntary agencies. And perhaps most important of all, it enables management to identify such problems as commodity shortages early on and solve them by, for example, inter-warehouse transfers.

The other principal means of coordinating the efforts of the several entities involved in the management of Food for Peace commodities is the Coordinating Committee for State and Voluntary Agencies. A.I.D., the American

voluntary agencies and their local affiliates, and various elements of the Chilean Government are represented. The Committee meets regularly to discuss Food for Peace and related programs. In early 1980, the Committee held a 3-day seminar to promote full integration of 1980 programs.

CARE is unarguably the best managed of the three voluntary agencies. The main headquarters in Santiago employs a staff of 20 personnel to manage the Food for Peace Program. Another 22 employees manage the program in the field. Among these 42 employees are 9 full-time field inspectors. CARE and the Chilean Government entities with which it works now operate 23 warehouses from which food is dispatched to some 415 distribution centers. During the audit period, CARE distributed Food for Peace commodities under four programs:

1. The Maternal Child Health Program in cooperation with the Ministry of Health. (The program was phased out in 1977; residual stocks were exhausted in 1978.)
2. The Nursery Feeding Program in cooperation with the National Council for Pre-School Age Children in Day Care Centers.
3. The School Feeding Program in cooperation with the National Council for School Assistance and Scholarships. (The program was phased out in 1979; residual stocks are being exhausted in 1980.)
4. Food for Work Program in cooperation with the Ministry of Interior.

Although overshadowed by CARE, CRS is nevertheless effectively managed. CRS has only four employees in Chile; Food for Peace Programs are actually managed by CARITAS. CARITAS has a staff of 46, among them six full-time field inspectors. There are presently 21 warehouses in the CARITAS system from which food is dispatched to some 1,666 distribution centers. During the audit period, CARITAS managed five Food for Peace programs:

1. The Minimum Employment Program (discontinued in 1979).
2. The Nursery Feeding Program.
3. The School Feeding Program.
4. Children in Institutions.
5. Food for Work.

In 1979, CARITAS discovered significant thefts of Food for Peace commodities. The guilty employees were discharged, and the matter was immediately reported to CRS and A.I.D. CRS sent auditors out from New York to determine the exact amount of the loss and recommended controls to prevent recurrence.

The CRS auditors determined that \$47,201 worth of food had been stolen. They made three recommendations for improved controls, one of which proved

unworkable. The other two have been implemented. In our opinion, they constitute adequate corrective action.

None of the stolen food was recovered. The loss was reported to A.I.D. as required, and A.I.D. has issued a bill for the full amount to Catholic Relief Services. The Director of CARITAS later asked that the debt be forgiven, but the Acting A.I.D. Representative in Chile denied the request.

Like CRS, SAWS is overshadowed by CARE and for the same reason. SAWS has two employees in country and must rely on its Chilean affiliate to manage the Food for Peace Program. Again, the 11-man staff (including 5 full-time inspectors) of the local Adventist Philanthropic and Social Assistance Agency has done an effective job. There are now 4 warehouses in the Adventists' system from which food is dispatched to 1,843 distribution centers (occasionally through government warehouses). The Adventists managed three Food for Peace Programs during the audit period:

1. The Malnourished Child Feeding Program. (In this program, food usually moves from the Adventists' warehouses to government warehouses and then to the feeding centers.)

2. The Nursery Program.

3. The Children in Institutions Program.

Losses have been held to an acceptable level by all three voluntary agencies. In terms of weight, 1979 losses ranged from .2 percent for the Adventists to 1.3 percent for CARE.

In a foreword to the 1982 Annual Budget Submission, the Ambassador recommended that the Title II Program in Chile be terminated at the end of fiscal 1982:

"Regardless of Voluntary Organization projections to extend PL-480, Title II assistance into the late 1980s, our strategy should be to arrange to pass the remaining burden to the Chilean Government after FY-82 retaining only those functions that can and will be performed on a reimbursable basis."

Present plans call for the last American employee of A.I.D. to leave Chile by the end of 1980. A.I.D.'s two Chilean employees who monitor the Food for Peace Program are scheduled to be terminated by September 30, 1980. The Ambassador has endorsed AID's request for an increased personnel ceiling so that one employee can be retained through fiscal 1982. This is a measured step toward insuring that the integrity of the program is maintained with which we fully agree.

Early in the audit, it became clear that the program was well managed by A.I.D. and the voluntary agencies. For that reason, it was equally clear that a full-scale audit would not have enough value to management to justify the cost. On the basis of our preliminary field tests, we therefore curtailed the planned scope of Audit.

EXHIBIT A

COMMODITIES AND BENEFICIARIES

P. L. 480, TITLE II - CHILE

	<u>Value of Food Received (\$000)</u>	<u>Number of Beneficiaries (000)</u>
<u>Fiscal 1978</u>		
Catholic Relief Services	\$ 4,174	485
Seventh-Day Adventist World Service, Inc.	684	156
CARE	<u>1,196</u>	<u>1,094</u>
Total	<u>\$ 6,054</u>	<u>1,735</u>
<u>Fiscal 1979</u>		
Catholic Relief Services	\$ 3,530	254
Seventh-Day Adventist World Service, Inc.	1,928	158
CARE	<u>2,362</u>	<u>472</u>
Total	<u>\$ 7,820</u>	<u>884</u>
<u>Fiscal 1980</u>		
Catholic Relief Services	\$ 1,375	175
Seventh-Day Adventist World Service, Inc.	1,344	148
CARE	<u>321</u>	<u>347</u>
Total	<u>\$ 3,040</u>	<u>670</u>
<u>Summary Three Fiscal Years</u>		
Catholic Relief Services	\$ 9,079	914
Seventh-Day Adventist World Service, Inc.	3,956	462
CARE	<u>3,879</u>	<u>1,913</u>
TOTAL	<u>\$16,914</u>	<u>\$3,289</u>

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