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# Auditor General

AUDIT REPORT  
ON THE  
AID OFFICE OF FOREIGN DISASTER ASSISTANCE (OFDA) GRANT  
TO CATHOLIC RELIEF SERVICES  
FOR CYCLONE IN SOUTH INDIA DURING 1979  
GRANT NO. AID/SOD-PDC-G-0246

Audit Report Number 5-386-81-7  
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Area Auditor General Near East  
Agency for International Development

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**EXECUTIVE SUMMARY**

**Introduction**

During May 1979, a cyclone followed by a tidal wave struck parts of Andhra Pradesh State in southern India and caused extensive damage to public and private property. About 1.6 million people were affected by the cyclone and the loss to property was estimated at \$12.8 million. AID granted \$322,875 to Catholic Relief Services (CRS), a U.S. private voluntary agency, for providing clothing and shelter materials to the disaster victims. The grant agreement was signed on June 21, 1979 to cover relief costs from May 25 to August 30, 1979. CRS implemented the grant project through a subgrantee, the Diocese of Nellore (DON).

In addition to the cash grant, AID also approved the use of 213 MT of FL 480 Title II commodities valued at \$51,431, including ocean freight, for emergency feeding of the victims.

The principal objectives of this audit were to determine if the program was carried out in compliance with grant terms; and if the expenditures were properly supported and were for authorized purposes.

**Audit Conclusions**

Because of a serious lack of internal control and poor fiscal management practices, we were unable to determine if a substantial portion of the grant was properly expended or

effectively used for intended purposes. We identified \$245,414 of those expenditures which were unallowable because of inadequate supporting documentation, questionable procurement sources and duplicative charges. We recommended that OFDA obtain a refund from CRS for those expenditures found to be unacceptable. (See pp. 3 to 12.)

OFDA grant agreements currently lack or do not effectively delineate several important requirements necessary for proper grant administration and control over the use of U.S.G. provided funds. Because of this, similar discrepancies in grant expenditures and implementation have occurred repeatedly in the past. We recommended that future emergency grant terms be appropriately expanded in several key areas. (See pp. 13 to 16.)

## BACKGROUND

A cyclone, followed by a tidal wave 7 meters high, struck the coastal districts of Andhra Pradesh in Southern India on May 12, 1979.

The tidal wave penetrated 10 kms. inland and caused extensive damage to public and private property. According to USAID/India's final disaster summary report, about 1.6 million people were affected by the cyclone and the loss to property was estimated at \$12.8 million. Large numbers of electric and telegraph poles and crops in an area of about 102,638 acres of land were destroyed. Thousands of houses were damaged or destroyed and damage to irrigation tanks and water wells was extensive. Tidal water and rain flooded the land and breached roads, rail tracks, tanks and bunds. The number of people killed was officially placed at 594.

On May 18, 1979, the U.S. Ambassador made a determination that a disaster existed. On June 21, 1979, AID's Office of Foreign Disaster Assistance (OFDA) authorized a cash grant of \$322,875 to Catholic Relief Services (CRS) for providing clothing and housing materials to the disaster victims. The effective period of the grant was from May 25 to August 30, 1979. In addition, 213 metric tons of FL 480, Title II commodities valued at \$51,431, were utilized by CRS and other voluntary agencies for emergency feeding of the cyclone victims.

Our audit was made at USAID/India's request to determine if the program was carried out in compliance with grant terms; and if the expenditures were properly supported and were for authorized purposes. We also reviewed CRS records related to the Title II commodities used for emergency feeding during the disaster period.

Our audit was made during May to July 1980 and included an examination of pertinent records and documents at USAID/India, CRS and the diocese of Nellore (DON) which implemented the relief program for CRS. We also made field visits to selected villages to determine that grant-financed materials were distributed to the cyclone victims. Our audit was conducted in accordance with generally accepted auditing standards and included discussions and such tests of records as we considered necessary in the circumstances. Our findings were reviewed with USAID/India, CRS and DON and their comments were considered in finalizing this report. The final draft of this report was completed in late September 1980 but report issuance was extensively delayed due to delays in obtaining comments from OFDA. OFDA comments were received on February 9, 1981 and are reflected in the report.

## AUDIT FINDINGS, CONCLUSIONS AND RECOMMENDATIONS

We have been unable to determine if the major share of this OFDA Grant of \$327,875 to CRS has been properly expended or effectively used for the purposes intended. Overall, we found a serious lack of internal control and poor fiscal management practices at the subgrantee level to the degree that we could not satisfy ourselves that the expenditures claimed were valid. For example, all subgrant disbursements were made in cash or by bearer checks, \$216,174 of the expenditures were not adequately supported with vendor invoices, \$16,643 of grant purchases were claimed from one vendor who could not be located, and \$30,150 of claimed purchases were also found to be duplicate charges against other grant funds. In addition, the accuracy of recipient lists maintained by project personnel is questionable in spite of the fact that we found no discrepancies during our limited village visits.

Given the many discrepancies stated above, we have concluded that a total of \$245,414 of claimed grant expenditures are unacceptable and should not be funded from U.S. Government resources unless some method of establishing the propriety of expenditures is found. In the recent past, we have reported similar problem areas in the administration of other emergency grants in India. Thus, it seems necessary that detailed documentation requirements of AID grant agreements, and standard provisions thereto, be expanded and clarified to provide more specific guidance to grant recipients.

### A. UTILIZATION OF GRANT RESOURCES

CRS implemented this grant-funded relief program through the Diocese of Nellore (DON) by sub-granting \$319,141 to DON under an agreement executed with the diocese on June 27, 1979. From the remaining grant amount of \$3,734, they spent \$2,253 for their own administrative costs and refunded the unexpended balance of \$1,481. In addition, they also refunded \$85 of interest earnings they received on grant fund deposits.

Except for \$1,754 of administrative expenses, DON records showed the grant funds were used for procurement of \$90,543 of clothing and \$226,844 of shelter materials. Thus, the expenditures claimed were for purposes authorized in the grant agreement but our review

disclosed that contrary to Indian tax law and sound fiscal practices all the payments, including many large transactions, were made by cash or bearer checks. In addition, we identified \$275,414 of those expenditures that were unacceptable because supporting documentation was not adequate, the procurement was made from irregular sources or was found to be charged to more than one grant.

1. Improper Support - Expenditures totalling \$216,174 incurred for shelter materials and trucking charges were not supported by regular vendor invoices. Rather, they were supported only by DCN's internal voucher forms which provided details of the procurement, such as quantity, vendor name, and payee's signature or thumb impressions,

DCN officials informed us that actual vendor invoices could not be obtained for shelter materials because most procurement was from small suppliers who do not have printed invoices. They stated that large quantities were required to be purchased and distributed within a short period of three months and they were therefore procuring from wherever the materials were available. DCN officials further explained that most of the temporary shelters had to be covered with palm leaves and grass whose suppliers are not regular vendors. Because of this, DCN maintained that adequate invoices could not be obtained. CRS also advised us that, during emergency situations, procurement of needed relief materials through normal channels following the U.S. Government's procurement practices is extremely difficult.

We recognize that there are problems in procuring materials during emergency periods, especially when they are procured from small vendors. However, we found that shelter materials costing \$59,707 were purchased at Nellore from established vendors who had printed bills but even then, DCN did not obtain proper documentation. When questioned about this, DCN officials gave us two unacceptable reasons for not obtaining invoices from the suppliers

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NCTE All rupee conversions are based on the average rate of  
\$1 Rs. 7.95273

- (i) The vendors were small and normally did not have such a large annual turnover as they had during the emergency. Thus, they did not want to show the increased sales in their books in order to avoid having to pay large amounts of income tax.
- (ii) The vendors were selling unauthorized items such as center and side poles which they had acquired "stealthily" from the forest. (Audit Note - Normally, these items are auctioned in public by the Indian Forestry Department and the vendors should have official receipts for the purchases. Such products should also have official government markings which indicates they were legally purchased but in this case the markings were not there.)

DON officials also claimed that if they had not accepted these materials without proper invoices, the project could not have been completed within the stipulated period. In our view, these explanations are unacceptable. In addition to the lack of adequate supporting documents, we question the use of U.S. Government funds for knowingly financing transactions involving illegal procurement and tax evasion.

CRS has also objected to our disallowance of the above improperly supported expenditures. They feel that the expenditures should have been accepted because some similar expenditures were accepted in a previous audit and because "the trader community always takes advantage of such calamities when demands are greater than the market availability and exploit the situations. They make their own terms for sale, knowing that the buyer has to purchase them. The buyer thus has no option but to agree to their demand." From an audit viewpoint, we do not accept this rationale. None of the expenditures were supported by vendor invoices, many of them were illegal, all of them were paid either in cash or bearer checks cashable by anyone in India without identification, and from our analysis of the disaster distribution records we could not satisfy ourselves of the overall effectiveness and accuracy of the claimed distribution of the disaster assistance. Furthermore, we do not agree with CRS's claim that the above described market situation always exists in India at the time of a disaster since we have found where some other

voluntary agencies have obtained adequate documentation. Nevertheless, the reasoning provided above by both DON and CRS is not, in our view, an acceptable basis to justify the expenditure of U.S. Government funds. True, an emergency existed but this grant was not implemented all that fast and there does not appear to be any reason to accept self-prepared invoices that virtually support all cash procurement that the grantees themselves admit were either illegal purchases or improper cash transfers to avoid tax laws.

#### OFDA Comments Re Improper Support

"As noted in the Audit Report, expenditures would be unacceptable unless some method of establishing the propriety of expenditures is found." Absent the provisions suggested in Recommendation No. 2, and given the emergency situation that existed in southern India in May, 1979, "propriety for expenditure" would seem reasonable and proper for:

- (a) Disbursements to those who do not qualify as "regular vendors" and who normally do not have or utilize printed invoices. This could presumably disqualify the regular vendor seeking to avoid taxes such as those covered by the \$59,707 payment cited.
- (b) Disbursements for sales of goods that might have been stolen, provided the seller had no reasonable basis for knowing the goods may have been stolen.

These two qualifications seem reasonable and should provide a more equitable approach to the problem than a blanket rejection of all expenditures as recommended by the Audit Report." (Audit Note - The data in this report relating to "procurement of stolen goods" and "income tax avoidance" was presented by the sub-grantee therefore there is no question of whether they were aware of the situation.)

2. Irregular Vendor - Cloth procurement totalling \$16,643 was supported by cash memos from a vendor called Handloom Products who could not be located at the address shown. Our market inquiries (in the company of CRS representatives) revealed that no such supplier had ever existed at Nellore. When questioned during the audit, DON officials informed us that this vendor was a dummy organization of another vendor called Punjab Handloom Industries (PHI) and that the cash memos were actually issued

by PHI under two different names. However, they could not explain why they obtained separate quotations from both Handloom Products and PHI and we were unable to contact the PHI proprietor because he was reported to be out of town.

In response to our Record of Audit Finding (RAF), DON furnished us a copy of a letter dated July 28, 1980 from PHI. The letter referred to our audit finding and stated that the firm of Handloom Products was owned by persons known to them and that their head-office was in Panipat, northern India. The letter further explained that Handloom Products was having an exhibition sale at Nellore in 1978-1979 in a next-door shop rented to them by PHI's request. Thereafter, the Handloom Products business decreased and their remaining stock was transferred to PHI who later amalgamated the two firms and now operates under one name only. Of the total \$90,543 of grant funds expended for cloth, \$67,440 or about 75 percent was for materials procured from Handloom Products and PHI.

We find it difficult to accept PHI's explanation that Handloom Products did business only for a short while around the time of the cyclone, especially since no one in the area knew of the firm. Moreover, subsequent to PHI's letter, we visited Panipat and were again unable to locate Handloom Products. Furthermore, of the \$67,440 paid to these two vendors, only one payment of \$5,796 to PHI was by a bearer check, all the other payments were in cash which is contrary to Indian tax law and sound business practice. In view of the questionable aspects surrounding this claimed procurement, we are disallowing the entire amount of \$16,643. In response to our draft report OFDA stated they take no exception to this disallowance.

3. Duplicate Charges - Expenditures totalling \$30,150 incurred for cloth (\$12,597) and shelter materials (\$17,553\*) were charged to the OFDA grant as well as against funds granted to DON by CARITAS/India for this disaster. The expenditures were supported by the same payment vouchers under both the grants and there has been no explanation of what use has been made of the \$30,150 left over in one or the other of the two separate grants.

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\* These expenditures of \$17,553 were not adequately supported and were disallowed under improperly supported expenditures totalling \$216,174 shown on page 3.

DON officials acknowledged that they had initially charged certain purchases of clothing to both grants. But on a later date, by mutual agreement with CRS, it was decided to charge all the clothing materials to the OFDA grant. The money thus saved from the CARITAS grant was to be used for other relief measures. However, appropriate accounting entries were not made in the books to reflect the transfer of expenditures to the OFDA grant. CRS confirmed that they had agreed to accept the transfer as a charge against OFDA funds and they felt that it was clearly due to an oversight on the part of diocesan authorities that these costs were not removed from the CARITAS grant records. However, they could not explain why this did not show up as a \$30,150 difference in cash account reconciliations or what the money was actually used for. In November 1980 they advised us that the money was subsequently spent for relief purposes but they didn't state when this occurred or the details of what was procured.

Furthermore, the above explanation was not supported by the information available in the CARITAS/India grant records either. According to those records, DON received the CARITAS grant totalling Rs. 900,000 (\$113,179) during May and June 1979. The funds were almost fully expended for various items such as clothing, shelter materials, rice, a jeep, and loans for construction of permanent houses. The expenditures included the duplicate charges found by us and there was only a small balance of Rs. 10.03 (\$1.26) as of December 30, 1979 according to the grant records. Thus, there is again a question of what happened to the cash?

DON did not explain as to what other expenditures, if any, were incurred from the money available after the transfer of costs between the two grants. Moreover, DON's response mentioned the transfer of clothing costs only, nothing was said regarding the shelter materials. Accordingly, we consider the duplicate expenditure of \$30,150 charged to the OFDA grant as unallowable. OFDA has agreed with us and has taken no exception to this disallowance.

4. Distribution of Relief Commodities - According to CRS's final report, grant funds were used for the procurement and distribution of clothing and shelter materials as follows

<u>Item</u>	<u>Quantity</u>	<u>Cost</u>
Clothing:		
Bed Sheets	22,319	
Children's Wears	25,456	
Miscellaneous	<u>888</u>	\$ 90,543
Shelter Materials		<u>226,844</u>
		<u>\$317,387</u>

The CRS report stated that clothing was distributed to 20,884 families in 342 villages and the shelter materials to 13,560 families in 351 villages. DON had village level distribution lists showing names, items supplied and the beneficiaries' signatures or thumb impressions. We visited 16 villages and the people contacted there acknowledged receipt of clothing and shelter materials from DON but there was no way for us to determine whether the commodities were obtained with OFDA or CARITAS funds. In addition, we also observed the following exceptions which made it difficult for us to conclude that the overall grant-funded relief program was effectively implemented:

- (a) According to the grant agreement and other related documents, clothing and shelter materials were to be distributed to 12,000 families based on need as determined by a survey. As stated above, the CRS final report showed that actual distribution was to many more than the stipulated number. However, we found that DON had not correctly established the number of affected families or their needs. The consolidated survey report, supposedly prepared on the basis of surveys conducted by DON, showed that only 12,671 families had been affected in 173 villages. Of these, individual survey sheets were available for only 6,660 families in 67 villages. In many of the village lists, we found that the number of families

differed substantially from that shown in the consolidated report. We also found that documentation showing requirements for shelter materials was incomplete and available for only a few distribution centers. There were wide variations between the quantities required and distributed --- distribution being greater than the requirement at some centers and less at others.

DCN officials acknowledged that procurement of grant materials had not been made on the basis of predetermined need but on the basis of funds available. Later, parish priests and others assessed the families' needs in each village and distributed the materials accordingly. In the case of clothing, they found that the actual need per family was much less than the stipulated Rs. 60 per family. Hence, the clothing purchased for 12,000 families was actually distributed to 70,88 . These officials stated that other factors which increased the number of beneficiaries were the presence of many more people at the time of distribution and requests by other groups for distribution in their areas.

DCN officials further stated that some survey papers were not available because sub-center personnel had taken them for use in distributing the materials, and in some cases surveyors could not visit certain areas because they were unapproachable. They felt the survey could not be called incomplete because of this. In regard to the variations in figures, they said these were due to some centers having served as stores for the sub-centers.

The above explanations are not entirely satisfactory for several reasons. For example, the sub-centers took away only individual survey sheets, this does not explain the differences in or the incompleteness of the consolidated survey report. Moreover, DCN's explanation regarding variations in figures was not supported by the available records.

- (b) According to available documents, all distributions of grant-funded items were to be coordinated with the Government of Andhra Pradesh (GOAP) to avoid duplication. We found no evidence of how the villages were selected or that DON had coordinated their relief efforts with the GOAP. In fact, DON did not even respond to the GOAP's letter inquiring about the places where they would provide relief assistance. Instead, DON claimed the GOAP was verbally informed.
- (c) Although distribution lists were available, most of them did not have any dates to show when the materials were distributed. We found only 7 of the 351 distribution lists for shelter materials had dates on them. In the case of clothing, dates were shown on 137 out of the 342 distribution lists. However, 45 percent of the lists (where dates were given) showed that clothing distribution had been made on the last two days of the grant period although the bulk of the clothing had been purchased during June 13, to July 4, 1979. In effect, distribution was significantly delayed and it seems somewhat questionable that this would qualify as emergency relief assistance.

DON officials attributed the lack of dates to the fact that there was no provision therefore in the distribution lists. They further stated that there was advantage in delaying the date of distribution, but did not elaborate as to what this so-called advantage was.

- (d) There were differences in program accomplishment details shown in CRS's initial completion report furnished in November 1979, and the revised one submitted in March 1980. The following summary indicates the differences in overall totals:

	<u>Clothing</u>		<u>Shelters</u>	
	<u>No. Villages</u>	<u>No. Families</u>	<u>No. Villages</u>	<u>No. Units</u>
Initial Report	388	21,732	324	12,113
Revised Report	342	20,884	351	13,560

Similarly, the initial report showed the distribution of 18,437 sets of girl's wear and 16,496 sets of boy's wear. Against this, the revised report showed 10,979 and 11,744 sets, respectively. Both the reports were submitted quite some time after the termination of the grant, hence there should not have been any major differences.

CRS explained that the initial report submitted in November 1979 was based on the distribution lists available with DON at that time. Some lists were received later and necessitated the revision of figures. DON explained that differences occurred as some centers had not made any distinction between the OFDA and CARITAS grants while preparing the distribution lists. However, these explanations are again questionable because (according to both CRS and DON) all clothing costs were charged to the OFDA grant and there should have been no reason for any mix-up. In addition, the late receipt of some lists should have increased, not reduced, the initial figures.

In answer to our draft report, OFDA has not taken exception to this report section on the distribution of relief commodities. They stated, "The differences between the predicted needs and the actual distribution seems modest, given the obvious shortfall of hard data during the cyclone. Further, while agreeing with the Audit Report that these differences bar a determination of effective distribution of relief supplies, these differences do not make the case for determining the ineffective distribution for relief supplies. On balance, moreover, most of the relief supplies were distributed to the needy as was found by the auditors in their village visits."

In conclusion, we did find evidence of distribution in the disaster areas during our field visits and in our review of the distribution lists but we strongly disagree with OFDA's above conclusion that "most of the relief supplies were distributed to the needy." Because of the above observations, we were unable to determine the overall effectiveness and accuracy of the distributions claimed and we do not know what was distributed or whether it was funded from the CARITAS grant or

the OFDA grant. We made field visits to only 16 of the 342 villages included in CRS's report and, considering the poor distribution records available, the lack of internal controls, and the poor fiscal management practices described throughout this report, we could not determine if either the expenditures or the distribution claimed were proper.

Recommendation No. 1

The Director, Office of Foreign Disaster Assistance, should obtain a refund from CRS in the amount of \$245,414 for those expenditures under Grant AID/SOD/PDC-G-0246 found to be unacceptable for financing from U.S. Government provided resources.

B. GRANT ADMINISTRATION AND DOCUMENTATION  
REQUIREMENTS

A substantial portion of the costs claimed under this grant have been disallowed because of inadequate supporting documentation, questionable sources, duplicative charges, procurement from vendors knowingly violating local laws, and an unreasonably large number of cash transactions which could not be verified. In effect, we have concluded the grant project was implemented without adequate control over the U.S. Government provided resources and without following acceptable business practices. More important, this is not an isolated situation but has been repeatedly reported by us in the last several months.

In our opinion, responsibility for these recurring problems must be shared between AID and the grantee. Clearly, grantees must accept primary responsibility for any unacceptable practices employed during grant implementation but, grantee's should also be well advised of AID standards in terms of regulations, practices and documentation requirements. In our view, many of the problems found with the implementation of this, and other grants, relate directly to lack of effectively communicating AID requirements. In effect, we see a critical need to expand AID guidelines included in grant agreements and the standard provisions incorporated therein. We feel this is particularly important in the case of OFDA emergency disaster assistance grants but it may also be important in other grant areas as well.

More specifically, we believe future OFDA grants should include improved guidelines in the following four areas:

Supporting Documentation - Grant agreements should specifically require that all expenditures be supported by invoices obtained from reputable business firms except for minor costs where general business practices indicate invoices or receipts are not readily available. A definition of "minor costs", including a limitation in terms of dollar amount, should be included. The agreement should specifically provide that procurement of illegal commodities or procurement that contravenes local law will not be accepted for financing from U.S.G. provided funds. We do not consider requirements such as this to be burdensome or as a contribution to increased paperflow. In our view, it is easier and less work for grant administrators to obtain invoices from reputable suppliers than preparing their own, self-issued, documentation. We are recommending better documentation, not increased paperwork flows.

In the past we have found this problem area to be highly troublesome. For example, in our Report No. 5-386-80-3, dated October 23, 1979, we recommended that OFDA clarify record-keeping and documentation requirements in future grants. In response, OFDA agreed that proper records and documentation are essential to keep fiscal management controllable, but stated that obtaining proper receipts is a problem when relief workers are operating under difficult conditions and small amounts of money are involved. OFDA concluded that the only solution is for the auditors to question even minor expenditures and request that OFDA make determinations in disputed cases. However, considering current circumstances, we wish to emphasize the wide implications of this recurring problem. First, the problem of improper documentation is not only confined to small amounts of money but also includes transactions involving significant amounts. Second, such expenditures or purchases usually are not properly supported because the vendors reportedly do not want the transactions reflected in their records for the purpose of evading income taxes. Third, they have usually involved payments in cash or by bearer checks which, in the case of India, is contrary to tax laws.\* Thus, such transactions are illegal, contrary to sound business practices, and they nullify the application of normal fiscal controls and audit reviews. In sum, we do not accept that U.S. Government grant funds should be used to finance such activities.

Financial Records - Grant agreements should specifically provide that adequate records be maintained in accordance with the requirements of AID Handbook 13 and Circular A-110 of the Office of Management and Budget (OMB). In particular, Section IL of AID Handbook 13 prescribes standards for financial management systems of grant recipients. Among other things, these systems are required to provide for: "Accounting

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\* Indian tax law clearly provides that procurement in excess of Rs. 2,500 generally must be paid by crossed check. The check is then required to actually be deposited to the seller's bank account. Tax authorities treat violations (cash or bearer checks) of these provisions as personal income of the buyer involved and taxes them as such. The tax authorities also advised that these provisions apply to funds granted by foreign donors and to all religious and charitable organizations. For the case at point, we noted that clothing procurement from grant funds totalled Rs. 720,000 and 99 per cent of the sub-grantee's payments for these commodities were contrary to the above regulations. We did not disallow all such procurement but just those items that were also not supported with vendor invoices.

records that are supported by documentation that at a minimum will identify, segregate, accumulate, and record all costs incurred under a grant or agreement and which fully disclose (1) the amount and disposition by the recipient of the proceeds of such assistance, (2) the total cost of the project or undertaking in connection with which such assistance is given or used, (3) the amount of that portion of the cost of the project or undertaking supplied by other sources, and (4) such other records as will facilitate an effective audit."

Frequently, the recipients of OFDA grants get funds for the same disaster from other sources as well. Under the provision of Handbook 13 cited above, the grantees are required to make available for our audit all records showing the total sources and application of funds received for the project. We have found that grantees frequently keep separate records for OFDA grants and are reluctant to allow us access to other records. This impairs audit effectiveness inasmuch as we are precluded from reviewing the overall expenditures to determine whether there is any duplication in attribution of costs to various funding sources. In the case of this grant to CRS, we were able to find such a duplication because we also reviewed the other records.

Internal Controls - Grant agreements should require that adequate internal controls be maintained to safeguard all grant provided resources. Specific provision should be included to require grant expenditures to be made by check to the degree possible.

Grant Audits - Grant agreement terms relating to grantee audit requirements should be clarified. This clause should indicate whether audit costs are grant fundable and require that any such audits meet U. S. General Accounting Office standards as specified in OMB Circular A-110.

Our review of this grant's provisions relating to grantee audits amply demonstrates the need for the above clarification. Section C of Attachment No. 1 to the grant agreement required CRS to submit, inter alia, a fiscal report and audit detailing the expenditure of grant funds within 90 days after completion of the grant. CRS submitted an audited fiscal report within the specified period. However, CRS so severely restricted the public accounting firm's scope of work that the report was virtually useless. Accordingly, we do not consider the audit cost of \$528 to be appropriate use of grant funds.

CRS contracted with a highly reputable, international public accounting firm to perform an audit of this grant but limited the scope of work to the following: (a) preparation of a receipt and payment statement in accordance with standard accounting practice; (b) verification and certification that all receipts of grant funds were supported by bank advices and the payments by vendors' bills and receipts. However, CRS further stated in the agreement that the firm was not required to check the propriety of expenditures and physical acquisition and distribution of goods purchased with grant funds (Emphasis added). In confirming the scope of work, the public accountants acknowledged this limitation and also stated their understanding that the statements were not required to "comply with Indian, U.S. or other laws, statutes, rules or regulations, as may be in force in any of the countries."

Thus, the audit's scope was unduly restricted and the resultant report was nothing but a receipt and payment statement certified as to the existence of supporting documents. According to Section 4E of AID Handbook 13, the purpose of audit, either by the grantee or AID, is to determine that grant funds were expended in accordance with the grant's terms and conditions and that program performance and accomplishments were realized as intended. The CRS audit clearly did not meet this purpose and, therefore, the related expenditure of \$528 cannot be considered proper. However, we have not disallowed the cost since it was incurred in pursuance of a grant requirement, and the grant did not incorporate the Handbook 13 provision regarding the audit's scope.

OFDA has taken no exception to our findings and conclusions regarding grant administration and documentation requirements. They stated, "We will move forward with the development of these provisions in consultations with GC and others. In this process, attention will be focused on developing language that will accommodate the requirements of sound financial management with the Congressional mandate that the Office of U.S. Foreign Disaster Assistance respond immediately and effectively in disaster situations."

#### Recommendation No. 2

The Director, Office of Foreign Disaster Assistance, should expand future emergency grant agreement terms to include specific clauses requiring grantee compliance with documentation requirements, provision of records, control mechanisms and auditing standards as specified on pages 13 to 16 of this report.

## LIST OF REPORT RECIPIENTS

### USAID/India

Director 5

### AID/W

Deputy Administrator (DA/AID) 1

#### Bureau For Asia

Assistant Administrator (AA/ASIA) 1

Office of Bangladesh and India Affairs (ASIA/BI) 1

Audit Liaison Officer 1

#### Bureau for Private and Development Cooperation

Office of U. S. Foreign Disaster Assistance (FDC/OFDA) 5

Office of Food For Peace (FDC/FFP) 2

Office of Private and Voluntary Cooperation (PDC/PVC) 2

#### Bureau For Development Support

Office of Development Information and Utilization (DS/DIU) 4

#### Bureau For Program and Policy Coordination

Office of Evaluation (PPC/E) 1

Office of Legislative Affairs (AA/LEG) 1

Office of General Counsel (GC) 1

Office of Financial Management (FM) 1

IDCA Legislative and Public Affairs Office 1

#### Office of Inspector General:

Inspector General (IG) 1

Assistant Inspector General for Investigations and  
Inspections (AIC/II) 1

Communications and Records Office (IG/EMS/C&R) 12

Policy, Plans and Programs (IC/PPP) 1

#### Regional Inspector General for Audit:

RIG/A/W 1

RIG/A/Nairobi 1

RIG/A/Manila 1

RIG/A/Cairo 1

RIG/A/Panama 1

### OTHER

General Accounting Office (GAO/W) 1

New Delhi Residency 3