

PD-AAU-053

IRN-46517

**AUDIT OF
IDLE UNITED STATES DONATED DAIRY COMMODITIES
OBSERVED IN PANAMA
AUDIT REPORT NO. 1-525-86-29
SEPTEMBER 5, 1986**

AGENCY FOR INTERNATIONAL DEVELOPMENT

U. S. MAILING ADDRESS:
RIG/T
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OFFICE OF THE REGIONAL INSPECTOR GENERAL
AMERICAN EMBASSY
TEGUCIGALPA — HONDURAS

TELEPHONES:
32-0044 & 32-0092
also 32-3120/9, EXT. 293 & 296

September 5, 1986

MEMORANDUM FOR: D/USAID/Panama, Ronald D. Levin
FROM : RIG/A/T, *Coinage N. Gothard* Coinage N. Gothard, Jr.
SUBJECT : Audit of Idle United States Donated Dairy Commodities
Observed in Panama

This report presents the results of an audit of idle United States donated dairy commodities observed in Panama. Please advise us within 30 days of any additional information relating to actions planned or taken to implement the recommendation. We appreciate the cooperation and courtesy extended our staff during the audit.

Background

During a recent audit of USAID/Panama's Situs Excess Property Program, a substantial quantity of idle nonfat dry milk and butter oil was observed at the warehouse of one of the program's recipient organizations - Primera Dama. Some of the commodities had deteriorated while in storage and were not considered safe for consumption. The existence of these commodities indicated the potential for serious economy and efficiency and/or other problems which warranted additional audit work. The results of this audit are the subject of this report.

Audit Objectives and Scope

The Office of the Regional Inspector General for Audit, Tegucigalpa, Honduras, conducted limited aspects of an economy and efficiency audit to determine whether USAID/Panama had any responsibility for the idle commodities and to identify reasons for their current status.

To accomplish the audit objectives, discussions were held with USAID/Panama and Primera Dama staff, and with Department of Agriculture officials in Kansas City and Washington, D.C. Pertinent Mission files were also evaluated. The audit was made during the period May 19, 1986 to July 29, 1986 and covered commodities with an estimated current value of \$525,000. The audit was made in accordance with generally accepted government auditing standards.

Results of Audit

The audit showed that USAID/Panama was not a party to the agreement which authorized the shipment of these commodities to Panama. However, the audit showed that the Mission had a vested interest in the commodities and in the underlying causes for their current condition because AID, in 1984, became responsible for the program under which these commodities were approved, and because the Mission has been requested to participate in another food distribution program.

As of May 19, 1986, 6,111 fifty-pound bags of nonfat dry milk (305,550 pounds) and 586 fifty-five-gallon drums of butter oil (253,152 pounds), with an estimated value of \$525,000, were observed stored in the Primera Dama warehouse in Panama City. Some of the dry milk had reportedly deteriorated and could not be used.



Donated Nonfat Dry Milk Bag with Source Information

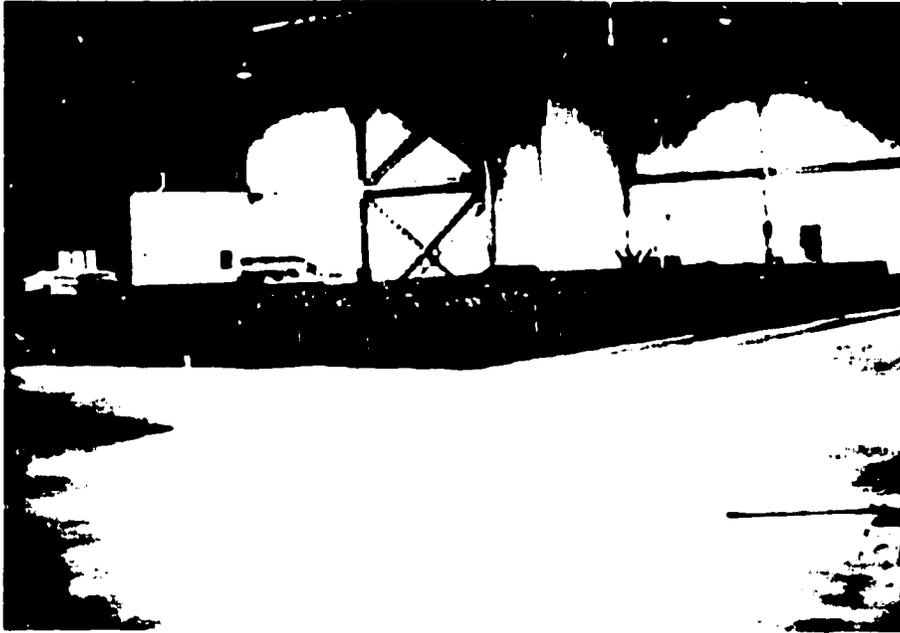


Donated Nonfat Dry Milk

According to a Primera Dama spokesperson, the commodities were not presently being used in any program. He said, however, that some of the commodities had been used in a school milk-pellet program. Equipment used to manufacture the milk pellets was located at the same warehouse, but had been partially dismantled and could not be repaired without the assistance of trained technicians.



Donated Butter Oil Drum with Source Information



Donated Butter Oil

Based on information maintained in Mission files, it appeared that the dairy commodities were donated during fiscal years 1983 and 1984 by the Commodity Credit Corporation (CCC), under the authority of Section 416 of the Agriculture Act of 1949. Under the July 1983 agreement between the CCC and the Office of the First Lady (Primera Dama) of the Republic of Panama, 3,225,300 pounds of nonfat dry milk and 401,200 pounds of butter oil were scheduled to be delivered. In 1984, AID became responsible for administering Section 416 dairy commodities (previously administered by the United State Department of Agriculture).

The Section 416 commodities were reportedly delivered to schools and health centers. In a January 1985 program progress report, it was noted that nonfat dry milk inventories were reportedly low, with only 833,700 pounds or about 26 percent of the original deliveries remaining. However, the report stated that butter oil inventories were high, with 339,552 pounds or about 85 percent of the original deliveries remaining. The high level of butter oil was attributed to problems associated with the distribution of heavy 55-gallon drums in the rural areas and the suspension of the milk-pellet program.

The GOP has proposed another food distribution program for Panama and requested USAID/Panama's participation in this effort. In May 1986, USAID/Panama recommended to AID/Washington that the Mission not participate in a new food distribution program because of GOP increased capability to carry out such a program on its own and because of the

Mission's inability to provide required program monitoring. Nevertheless, USAID/Panama staff said that the Mission was still receiving requests from the GOP and the American Embassy to participate in a new food program.

Recommendation No. 1

We recommend that USAID/Panama not participate in any new food distribution program until existing commodities have been used and until distribution and other problems disclosed in earlier programs have been resolved.

USAID/Panama concurred with the report findings and recommendations. It has clearly stated its position, in correspondence to AID/Washington and to the GOP, not to participate in a new food program until problems identified in the report have been satisfactorily resolved. In view of the Mission's actions, the recommendation was closed upon issuance of the report.

UNITED STATES GOVERNMENT

memorandum

DATE: August 20, 1986
REPLY TO: *J. E. Larson*
ATTN OF: Denton E. Larson, Controller, USAID/Panama
SUBJECT: Draft Report of Idle United States Donated Dairy Commodities Observed in Panama
TO: Mr. Coinage N. Gothard, Jr. RIG/A/T

USAID/Panama has reviewed subject report and concurs with the findings and recommendations. Attached please see copies of the English translation of a letter to the First Lady transmitting a copy of the draft audit report and her response to the audit findings. Also, attached is a recent exchange of cables between Washington and the Mission regarding Panama's participation in a new Section 416-donated dairy products program.

You will note from the attached that we have put both the initial Record of Audit Findings (RAF) and the draft audit report to good use. USAID/Panama concurs in subject report and we are committed to resist external pressures to participate in a new program until utilization of existing commodities and problems with earlier programs are satisfactorily resolved.

In view of actions taken, we request that the audit recommendation be closed.

Attachment: a/s

July 31, 1986
8--1598

Mrs. Mariela D. de Delvalle
First Lady of the Republic
Panama, R. P.

Dear Mrs. Delvalle:

The projects and programs of USAID/Panama are audited from time to time by our Agency's Office of the Inspector General. In May of this year, one such audit was conducted to examine our programs of donated commodities. Among the recipients of such commodities is your office and accordingly, your facilities were examined and your staff interviewed to assess the effectiveness of our past programs and their compliance with our regulations. Once the report and any recommendations are finalized, we are required to comply with the recommendations.

We have now received a draft audit report for comment and corrective action. As Controller for USAID/Panama, I am responsible for submitting comments and monitoring actions necessary to correct any deficiencies noted in Agency audit reports.

The attached draft audit report entitled "Idle United States Donated Dairy Commodities Observed in Panama", requests that we provide comments and information related to actions planned or taken to implement the report's recommendation within 30 days. I would appreciate any comments you may have that will assist me in responding to the draft report. Of particular use would be your plans to utilize the existing commodities in compliance with their intended purpose.

Thank you for your cooperation and assistance.

Sincerely,

Denton E. Larson
Controller

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APPENDIX A
Page 3 of 10

FOR AMBASSADOR AND AID MISSION

E.O. 12356: N/A
TAGS: EAGA, SAID FM
SUBJECT: SECTION 416 FOR SUGAR QUOTA COUNTRIES

REF: (A) STATE 117893 (B) PANAMA #634

1. REQUEST EMBASSY/MISSION CONFIRM WHETHER PROGRAM OFFERED REF (A) WAS PRESENTED TO THE GOVERNMENT OF PANAMA (GOP).
2. THIS PROGRAM IS BEING OFFERED TO FULFILL PRESIDENT REAGAN'S COMMITMENT TO CARIBBEAN BASIN INITIATIVE (CBI) LEADERS. THEREFORE, IT IS ESSENTIAL THAT EMBASSY/USAID OFFER SECTION 416 COMMODITIES TO THE GOP AS INSTRUCTED IN REF A.
3. WHILE DCC APPRECIATES MISSION POSITION GIVEN REF & THE UNIQUE NATURE OF THIS PROGRAM SHOULD REQUIRE LIMITED PROGRAM MONITORING EFFORTS BY MISSION.
4. PLEASE ADVISE GOP INTEREST IF ANY IN SUBJECT PROGRAM.

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JOINT EMBASSY/USAID

FOR AID/PPP AND FOR USDA/FAS. SAN JOSE FOR AGATT.

E.O. 12356: N/A.
 SUBJECT: SECTION 416 SUGAR QUOTA OFFSET: STREAMLINED
 PLAN OF OPERATION AND SECTION 416 AGREEMENT

REF: (A) STATE 172853, (B) STATE 117093, (C) PANAMA
 06354

- MISSION HAS RECONSIDERED CAREFULLY OUR RESPONSE TO SECTION 416 SUGAR QUOTA OFFSET INITIATIVE. WE HAVE MADE EVERY EFFORT TO ARRIVE AT A FAVORABLE CONCLUSION. OUR CONCLUSION, HOWEVER, IS THAT OUR ORIGINAL RESPONSE (REFTEL C) WAS CORRECT IN RECOMMENDING THAT PANAMA NOT PARTICIPATE IN THE PROGRAM AT THIS TIME.
- IN ADDITION TO THE REASONS GIVEN IN REFTEL C FOR RECOMMENDING THAT PANAMA NOT PARTICIPATE IN THE PROGRAM, WE HAVE JUST BEEN PROVIDED PRELIMINARY AUDIT FINDINGS BY RIG/A/T OF OUR EXCESS PROPERTY PROGRAM IN WHICH; UNDER THE HEADING QUOTE OTHER MATTERS, UNUSED DONATED DAIRY COMMODITIES UNQUOTE; THE FOLLOWING INFORMATION IS PROVIDED: QUOTE DURING A MAY 19, 1986 VISIT TO THE PRIMERA DAMA'S WAREHOUSE IN PANAMA CITY, WE OBSERVED SUBSTANTIAL QUANTITIES OF POWDERED MILK AND BUTTER OIL. WE ESTIMATED THERE WERE 8,620 50-POUND BAGS OF POWDERED MILK (430,000 POUNDS) AND 580 55-GALLON DRUMS OF BUTTER OIL (250,560 POUNDS) IN STORAGE. SOME OF THE POWDERED MILK HAD REPORTEDLY DETERIORATED AND COULD NOT BE USED. ACCORDING TO A PRIMERA DAMA SPOKESPERSON, THE COMMODITIES WERE NOT PRESENTLY BEING USED IN ANY PROGRAM. HE SAID, HOWEVER, THAT SOME OF THE COMMODITIES HAD BEEN USED IN A SCHOOL MILK PELLET PROGRAM. EQUIPMENT USED TO MANUFACTURE THE MILK PELLETS WAS LOCATED AT THE SAME PRIMERA DAMA'S WAREHOUSE BUT HAD BEEN PARTIALLY DISMANTLED AND COULD NOT BE REPAIRED WITHOUT ASSISTANCE OF TRAINED TECHNICIANS. IT APPEARS THAT THE COMMODITIES WERE EITHER PART OF SECTION 416 COMMODITIES DONATED DURING FISCAL YEARS 1983 AND 1984 BY THE COMMODITY CREDIT CORPORATION (CCC) OR COMMODITIES DONATED UNDER AN EARLIER CARE PROGRAM. UNDER THE JULY 1983 AGREEMENT BETWEEN THE CCC AND THE OFFICE OF THE FIRST LADY OF THE REPUBLIC OF PANAMA, 3,225,300 POUNDS OF POWDERED MILK

AND 401,220 POUNDS OF BUTTER OIL WERE SCHEDULED TO BE DELIVERED. THE SECTION 416 COMMODITIES WERE REPORTEDLY DELIVERED TO SCHOOLS AND HEALTH CENTERS. IN A JANUARY 1985 PROGRESS REPORT ON THE PROGRAM, IT WAS NOTED THAT THE INVENTORY OF POWDERED MILK WAS LOW, WITH ONLY 633,700 POUNDS OR ABOUT 26 PERCENT OF THE ORIGINAL DELIVERIES REMAINING. HOWEVER, THE REPORT STATED THAT THE INVENTORY OF BUTTER OIL WAS HIGH, WITH 339,552 POUNDS OR ABOUT 85 PERCENT OF THE ORIGINAL DELIVERIES REMAINING. THE HIGH LEVEL OF BUTTER OIL WAS ATTRIBUTED TO PROBLEMS ASSOCIATED WITH THE DISTRIBUTION OF HEAVY 55-GALLON DRUMS IN THE RURAL AREAS AND THE SUSPENSION OF THE MILK PELLET PROGRAM. THIS INFORMATION IS BEING PROVIDED BECAUSE AID NOW HAS RESPONSIBILITY FOR ADMINISTERING SECTION 416 DAIRY COMMODITIES (PREVIOUSLY ADMINISTERED BY THE UNITED STATES DEPARTMENT OF AGRICULTURE) AND BECAUSE THE GOVERNMENT OF PANAMA HAS REPORTEDLY EXPRESSED INTEREST IN STARTING ANOTHER FOOD DISTRIBUTION PROGRAM. IN THIS REGARD, WE RECOMMEND THAT NO NEW FOOD DISTRIBUTION PROGRAM BE STARTED UNTIL EXISTING COMMODITIES HAVE BEEN USED AND UNTIL THE DISTRIBUTION AND OTHER PROBLEMS INDICATED IN EARLIER PROGRAMS HAVE BEEN RESOLVED. UNQUOTE.

3. IN VIEW OF THE ABOVE, WE AGAIN RECOMMEND THAT PANAMA NOT PARTICIPATE IN THE SUBJECT PROGRAM. DAVIS

BT
#9938

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Translation

Office of the First Lady

Note No. DPD/380-86

Panama, August 6, 1986

Mr. Denton E. Larson
Comptroller
United States Agency for International
Development

Dear Mr. Comptroller:

Many thanks for your kindness to send us the draft of the audit report prepared in our warehouse by members of the Auditing General Inspector's Office of the United States Agency for International Development.

As much of the information and concepts which appear in the draft report forwarded by you, do not conform with reality, may I inform you of the following:

1. As you indicate in the first paragraph of your letter, USAID is in charge of "inspecting the excess property that has been donated to the First Lady's Special Projects". For this purpose, last May we received a call from Ms. Arlene hay, requesting authorization for Mr. Mario Hall and auditors Eugene Van Dick, Rolando Barahona and Ricardo Callejas, to visit on May 19, at two p.m. in the afternoon the Warehouse of the Community Matters Secretariat to perform an inspection of the excess property, which consists of furniture, electrical appliances, pots, lamps, etc. all second hand items, which we have received throughout the last years. This Office repairs these items when they are repairable, and distributes them to charity institutions and other organisms that may request this sort of assistance.

The visitors were received by Licenciata Jorge Sarasty, who is in charge of the Warehouse, and with whom they discussed the manner in which the inventory cards are handled. They also inspected the materials and could observe that some of it had to be disposed of because their repair represented a financially prohibitive expense. Also, Mr. Sarasty advised them about the different donations that we have made, thanks to USAID's support.

2. At no time the Auditors advised that they were undertaking to review the food stock in the warehouse. The only question they made to Mr. Sarasty was regarding the origin of the milk, to which he replied that all of it came from the United States of America. In the presence of Licenciata Sarasty there was no revision of inventory cards, nor counting of the pieces in the Warehouse neither there was any other question made regarding the origin of the food. This, at no time, surprised us as until that time, we had never before had an audit of our milk program in our warehouse made by USAID. We have indeed been visited by officials from the Foreign Agricultural Service, to whom we have presented our programs as well as the difficulties encountered during their execution.

Therefore, we are extremely surprised to know that it is USAID/Panama's concern to supervise the Milk Program being implemented by this Office as there is no such requirement in the Agreement signed on July 29, 1983 between the Commodity Credit Corporation and the Government of Panama. This Office has not been informed prior to, during or after the signature of this Agreement, that USAID will undertake this supervision; on the other hand, we understand that USAID does not have competent staff to counsel on the development of this program. All our reports have been sent directly by this Office to the Foreign Service of the Department of Agriculture of the United States of America, as established by the

referred agreement. FAS has knowledge of the difficulties we have had regarding the distribution of butter oil, as originally we were talking about 5 gallons containers and later the Commodity Credit Corporation was forced to send us 55 gallons barrels, which have caused serious problems that just now we have been able to overcome.

On the other hand, we wish to remind you that the preparation of the milk tablet was a proposal of an experimental type which could not be continued because of failure in the type of plant to be used and lack of adequate technical advice. When this Office had made substantial investments for the installation of a laboratory for the production of this tablet and received technical advice from the Office of the First Lady of Mexico, USAID decided to oppose to Panama's receiving more milk, thus causing the lack of raw material and the automatic conclusion of the above mentioned experimental project.

3. Regarding the figures that appear in the Draft Report, I wish to state that these do not agree with reality, as it assures that there are 8,700 milk bags and 580 butter oil barrels in the warehouse. You will observe that these are estimated figures as there was no real counting of the stored food. For this purpose we can supply you with the exact figures so that you can make the necessary corrections:

In this Office's Storeroom we had on that date 6,111 milk bags. Of these, 1,020 are hardened, 523 are broken and 4,568 represent the total good bags. I also wish to state that the total oil barrels is 586 and not 580. If the question about the origin of this milk had been clear, we could have explained that part of this milk, particularly the hardened one, came from a donation made by the World Food Program (PMA) to the Province of Veraguas, in 1983, and which with the assistance of the United Nations Office, who were about to withdraw it because the program expiration, we could have been able to obtain its adjudication for programs other than for human use.

The deteriorated bags correspond to four shipments which have been received throughout the years and which for accounting reasons we cannot dispose of or destroy without a special authorization. On the other hand, of the 4,568 good milk bags, one third corresponds to a PMA donation.

All these 4,568 milk bags are committed to rural programs, which are gradually withdrawn as they are consumed, due to lack of adequate storage space in the respective provinces. I wish to emphasize, mister Comptroller, that this Administration has been very careful regarding keeping the control of all the milk that is not being immediately used. At the same time, a series of evaluations are being carried out of all the programs that are conducted in different areas of the country and in those places where the evaluation has been insatisfactory, we are reviewing the systems and asking for a new programming.

Regarding the economic value of these donations, I would like to clarify that even using the current milk price, it is greater than the one two years ago (the metric ton of skimed powdered milk today has a price of \$625.00) the value of the 4,568 good milk bags is of \$64,875.00, which as you can see is significantly less than the amount mentioned in the draft report.

4. Finally, I want you to know that we are willing to make any clarification that may be necessary, and would equally like to know the report submitted by the auditors about the handling of the excess property, which was the expressed purpose of their visit. We deeply regret that the auditing team did not use in this occasion a conduct pattern more in accordance with the elemental courtesy standards which regulate the friendly relationship that have always prevailed among our officials. Coming to this Office for purposes other than those stated, deteriorates the image of the auditors and lead us to think that we are dealing with spies that are gathering supposedly secret information.

Believe me, Mr. Comptroller, we are more than willing to discuss any aspect related with the assistance that friend governments can offer to alleviate the difficult financial situation which is afflicting thousands of Panamanian families in great risk of malnutrition.

With the expressions of our highest consideration, I am pleased to remain,

Sincerely,

(Signed)(Mariela D. de Delvalle)

First Lady of the Republic of Panama

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13

APPENDIX B

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