AUDIT OF
CATHOLIC RELIEF SERVICES ADMINISTRATION OF P.L. 480, TITLE II PROGRAMS IN BURKINA FASO AND KENYA AND AT NEW YORK HEADQUARTERS

Audit Report No. 86-09

September 30, 1986

AGENCY FOR INTERNATIONAL DEVELOPMENT
WASHINGTON, D.C. 20523

Deputy
Inspector General

September 30, 1986

Mr. John Donnelly, Senior Director
Catholic Relief Services
1011 First Avenue
New York, New York

Dear Mr. Donnelly:

This report presents the results of our audit on the "Catholic Relief Services Administration of the P.L. 480, Title II Program." The audit objective was to determine if CRS was in compliance with the P.L. 480, Title II program regulations and if adequate controls were exercised over revenues from recipient fees, sales of containers and unfit food. Audit work was done in Burkina Faso, Kenya and CRS Headquarters in New York City.

Audit results showed that even though Catholic Relief Services had established a system for distributing large quantities of U.S. Government donated food to undernourished people, improvements could be made in administering the program. Problems were identified in defining ability to pay and ensuring proper accounting for these collections. Weaknesses in internal controls and accounting procedures were also found in both Burkina Faso and Kenya. Some of these problems were caused by a longstanding disagreement between CRS and AID over the collection and use of recipient fees.

We made seven recommendations addressing the need for defining ability to pay and ensuring eligible recipients will not be denied food. CRS should also improve internal procedures and external reporting and refund monies due to AID from claims and unauthorized expenditures.

Catholic Relief Services comments to the draft report were carefully considered and the complete text of the response is attached as Appendix A to the audit report. Our review of the response did not result in any sigificant changes to the findings and recommendations. With regard to those matters in dispute, the facts gathered during the audit support the report as presented and reaffirm our recommendations for refunds to the U.S. Government. Please advise AID's Office of Food for Peace within 30 days of additional actions taken or planned to resolve the recommendations. Thank you for the courtesies extended to my staff during the audit.

Sincerely,

James B. Durnil

James B. Durnil

EXECUTIVE SUMMARY

Catholic Relief Services (CRS) distributed approximately $730 million in relief food for AID in 1984 and 1985. This represented approximately 20 percent of AID's entire P.L. 480, Title II program and 53 percent of the total commodities provided to voluntary agencies and the World Food Program. In addition to the commodities, CRS administered about $13.7 million in cash grants received from AID, recipient fees and sales of containers.

A financial and compliance audit was made of CRS administration of the Title II program to determine if CRS was in compliance with prescribed regulations and exercised adequate controls over revenues from recipient fees, sales of containers and unfit food.

Our audit showed that CRS has established a system for distributing large quantities of U.S. Government donated food commodities to undernourished people. However, improvements in CRS' administration of the program and AID's oversight were needed. Our audit found that a longstanding disagreement had existed between CRS and AID over regulations governing the collection and use of recipients' contributions. CRS had made, as a matter of internal policy, the determination that AID regulations governing recipients'contributions did not apply to CRS operations and that country programs should be self-sustaining where possible. As a result, CRS did not comply with these regulations in determining recipients' ability to pay for food, clear criteria were not established for measuring recipients' ability to pay, and instances were identified during the audit where eligible recipients either did not apply for Title II food because they had no money or were denied food because they could not pay established fees.

Since CRS was not following AID regulations related to collections, they did not request AID's review and approval of expenses paid from recipient fees and container sales. In addition, CRS improperly retained proceeds from sales of containers, spent funds from AID program grants in Kenya for unauthorized purposes, improperly retained funds from inland claims and did not promptly recover claim proceeds in Burkina Faso. CRS did not have good internal controls over recipient fees and inventories of food in Burkina Faso.

In 1985, CRS estimated that total fees of $10.7 million were collected from recipients in connection with CRS sponsored programs. AID regulations encourage recipient contributions, but only when such contributions are based on individual recipients' ability to pay. CRS and AID had not developed any measurement of "ability to pay." In the absence of criteria for determination of who would pay and how much would be assessed, the responsibility for the determination of fees was shifted to the field where fees were determined by CRS country program managers pressured to finance their programs in conjunction with local counterpart agencies and host governments. Thus collection of fees was influenced by perceived needs to cover program costs and by host government demands that recipients pay a set fee as a condition of receiving food, rather than on individual ability to pay as required. As a result potential recipients, otherwise eligible, were denied food.

AID regulations specifically identify salaries, commodity transportation and storage costs as allowable costs for the Title II program. Other program related expenditures such as rent require advance AID approval. Because AID and CRS disagreed on the application of AID regulations to CRS operations, CRS and the distribution centers spent funds derived from recipient fees and container sales for costs not specifically allowable without getting AID approval. Although funds spent were mostly for program related support, better CRS controls and AID review would have assured effective and economic use of these monies, potentially increasing the number of recipients able to participate in the Title II feeding program. CRS reconsidered its position as a result of an internal study and during our audit agreed to comply with AID regulations.

CRS and its counterpart distribution centers were not following procedures required by Regulation 11 for the disposal of unfit food. As a result, CRS country programs, world-wide, retained about $544,000 in proceeds from the sale of unfit food at the end of 1985. This amount, net of expenses, should be returned to the U.S. Government. Also, AID has no assurance that all food disposed of was indeed unfit and handled in such a manner as to protect health and life.

CRS/Kenya received two AID grants totaling $1,836,773 to assist in relocating their food assistance program to needier areas of the country and for transporting emergency food assistance. Portions of both grants were used by CRS/Kenya to fund unauthorized program activities and to generate a sizable reserve fund at grant fund expense, i.e., expenses that should have been charged to recipient fees were charged to U.S. Government funds while recipient fees were accumulating in CRS accounts. According to the provisions of one of the grant agreements, recipient contributions should have been used to offset program expenses before using grant funds. Grant funds of $145,808 were disbursed to cover expenses that should have been covered from the recipient contributions fund. Under the other grant, CRS/Kenya used $175,560 to fund regular program expenses although the grant was awarded to transport emergency foods. Unauthorized expenditures of grant funds apparently occurred because CRS/Kenya operated with the understanding that grant funds could be used to support the entire program in Kenya.

Reliable accounting records and an adequate system of internal control were required to properly account for the distribution of food donated by the U.S. Government. CRS/Burkina Faso had neither. Records were not available to account for about $2.6 million of food. These accounting and internal control problems previously were reported in CRS' internal audit reports, but CRS/Burkina Faso failed to take action. As a result, CRS/Burkina Faso could not properly account for the quantity of food delivered.

When CRS/Burkina Faso filed claims for inland freight losses, it treated each truck or railcar involved as a separate claim for purposes of determining the amount of the claim to be retained by CRS for administrative costs. Also, CRS/Burkina was not recovering and submitting claims in a timely manner. As a result, CRS improperly retained approximately $89,000 and did not promptly collect and remit additional claims of $153,000.

We recommend that CRS in cooperation with AID establish clear criteria for determining when recipients will be required to pay for U.S. donated food commodities; prescribe reporting requirements for funds generated by recipient fees and container sales; strengthen controls over recipient funds collected by CRS' counterparts at distribution centers; improve the internal audit reviews of country programs; and establish clear criteria for the disposition of, and procedures to monitor, the funds generated from the disposal of unfit food. We also recommend that CRS fully account for food distributed in Burkina Faso in 1984 and 1985 and that CRS refund to AID $321,368 representing unauthorized expenditures under the two grants for CRS/Kenya's programs and $89,000 improperly retained for the cost of administering inland claims in Burkina Faso.

CRS RESPONSE

CRS officials agreed with our recommendations on procedural and compliance deficiencies but disagreed with our recommendations on monetary recoveries. CRS officials said where fault has been found it shall be corrected; where need for improvement has been noted, it shall be undertaken; but always with the recognition of the difficulties encountered in operating in countries with severe geographic, infrastructural and cultural constraint. These factors will never permit a totally successful "textbook" operation. The audit report both states and infers that, had CRS formally sought AID approval, it would have been granted. What are therefore found are technical infractions. The audit report does not, in the terms and findings thereof, fully indicate the immensity of size and difficulity of scope involved in the conduct of any feeding program and particularly the two which have just been audited. References in the report to amounts due from CRS for claims from the sale of unfit food, when compared to the large amount of AID's food received and distributed is testimony to CRS' ability to receive, control, warehouse and distribute to intended beneficiaries.

Office of the Inspector General Comments

CRS' response to the draft report was carefully reviewed and changes were made to the audit report where appropriate. The comments did not, however, result in siginificant changes to the facts and conclusions. The complexities in managing a P.L.480 Title II feeding program in the countries reviewed are many and AID and CRS managers are well aware of the problems encountered in managing the Title II feeding programs. To the extent possible our auditors considered these problems in making the audit and in preparing the audit report. Our recommendations related to refunds are based upon our interpretation of AID regulations, agreements and CRS' records and reports. Resolution of the recommendations in this report will be made by the appropriate AID management officials after considering CRS' comments to the final report. CRS' formal comments are included in Appendix A to this report.

Office of the Inspector General

AUDIT OF
CATHOLIC RELIEF SERVICES ADMINISTRATION OF
P.L. 480, TITLE II PROGRAMS IN BURKINA FASO AND
KENYA AND AT NEW YORK HEADQUARTERS

TABLE OF CONTENTS

AUDIT OF
CATHOLIC RELIEF SERVICES ADMINISTRATION OF
P.L. 480, TITLE II PROGRAMS IN BURKINA FASO AND
KENYA AND AT NEW YORK HEADQUARTERS

TABLE OF CONTENTS (Cont)

AUDIT OF CATHOLIC RELIEF SERVICES ADMINISTRATION OF P.L. 480 TITLE II PROGRAMS IN BURKINA FASO AND KENYA AND AT NEW YORK HEADQUARTERS

PART I - INTRODUCTION

A. Background

Under Title II of P.L. 480, The United States has been the major donor of food aid assistance to the needy, worldwide. Agricultural commodities are furnished (a) to meet famine and other urgent or extraordinary relief requirements, (b) to combat malnutrition, especially in children, (c) to promote economic and community development in friendly areas and (d) to needy persons and nonprofit school lunch and preschool feeding programs outside the United States. The law also provides that to the extent practicable nonprofit voluntary agencies are to be used to carry out the Title II program.

Catholic Relief Services (CRS), United States Catholic Conference was founded in 1943 and is the official overseas relief and development agency of the American Bishops. CRS is headed by an Executive Director answering to a 14 member Board of Directors. Headquartered in New York City, CRS operates in about 70 countries. In 1984 and 1985, CRS received from the U.S. Government commodities valued at about $730 million under Title II of the Agricultural Trade and Development Act of 1954, as amended, (P.L. 480) for distribution to needy recipients in 37 countries. In addition, CRS received over $2 million in AID program funds to help defray the cost of delivery and distribution.1/ Resources provided to CRS represent over 20 percent of the U.S. Government's Title II program commodities and over 53 percent of the total commodities provided to voluntary agencies and the World Food Program. CRS, and its in-country counterparts, also collected fees from recipients and sold empty containers and unfit food. Revenues from these sources amounted to at least $11.7 million for calendar year 1985.

In recent years, CRS has attempted to increase the generation of funds from recipient fees and container sales as a means to make its country programs more self-financed. Allegations were made that this self-financing effort led to program abuses; i.e., that (a) otherwise eligible recipients were

---

1/ AID's Offices of Food For Peace and Foreign Disaster Assistance provided grant funds to assist in the in-country storage and distribution of food and to enhance the CRS' capability to design and implement supplementary feeding programs.

denied food because they could not pay established fees, (b) recipient fees were collected from famine victims under emergency programs, (c) income from recipient fees and container sales was used for unauthorized purposes, (d) AID grant funds were improperly used and (e) income received from the sale of containers and spoiled food was not properly controlled or reported and/or was diverted to unauthorized use. Consequently, the AID Inspector General performed a financial and compliance audit of selected aspects of CRS' Title II programs.

CRS has P.L. 480 Title II programs in 37 of the 70 developing countries where CRS has activities. Activities at the headquarters in New York City include fund raising, budgeting, policy guidance, program development, controller services and internal audit. Country programs are headed by American directors responsible for liaison with U.S. embassies, AID missions and host governments, preparation of budgets and program proposals and administration of individual country programs. Books of account and U.S. currency bank accounts are maintained at headquarters. Country directors maintain local currency bank accounts and cash records and provide periodic financial reports on receipts and expenditures. These reports are the basis for headquarters accounting entries. Source documentation such as receipts, invoices and local currency bank account transactions remains in the field.

CRS utilizes its own internal auditors and an independent certified public accounting firm to provide audit coverage of its Title II programs. The internal audits cover about 20 percent of the country programs annually. The independent accountants audit the records at headquarters for the purpose of expressing an opinion on CRS' annual financial statements; they do not visit country programs as part of their annual examinations.

Burkina Faso is one of the largest recipients of P.L. 480, Title II food in West Africa, primarily under the sponsorship of CRS. The country is landlocked with a population of about 7.9 million and a per capita income of $210 annually. In 1984 and 1985 the United States delivered about 68,000 metric tons of food valued at $38 million. CRS reported that the food was distributed to over 2000 distribution centers for maternal child health, school feeding, food-for-work and general welfare. About 40,000 tons were distributed under regular programs and 28,000 tons under emergency programs.

CRS was also a major distributor of P.L. 480, Title II food in Kenya through food-for-work, maternal child health and institutional distribution programs. In 1984 and 1985, CRS received about 27,000 metric tons of food valued at $12 million. About 80 percent of this food was distributed under the maternal child health program. Regular programs amounted to 17,300 tons and 9,700 tons were distributed under emergency programs.

AID regulations governing the Title II program allow voluntary agencies to sell empty food containers and food determined to be unfit for human comsumption. The collection of fees from recipients is encouraged, but only based on individual ability to pay. The regulations require that receipts from the sale of containers and recipient fees be spent for program purposes. Net proceeds from the sale of unfit food are to be returned to the U.S. Government.

B. Audit Objectives and Scope

During the spring and summer of 1985 the AID Inspector General, among others, received a number of allegations and complaints regarding certain aspects of the operations of CRS in its capacity as the cooperating agency in the conduct of U.S. Government financed Food For Peace activities under P.L. 480 Title II. The irregularities alleged were considered to be of sufficient importance to require a review. This report contains the results of that review. A second, companion report dealing with AID's management of the CRS portion of the overall Food For Peace program is being issued to the Agency.

A financial and compliance audit was made of CRS administration at its New York headquarters and in Burkina Faso and Kenya of revenues generated under P.L. 480, Title II programs. Specific audit objectives were to determine (a) if CRS was in compliance with AID regulations governing the receipt and utilization of recipient fees and proceeds from the sale of containers and unfit food and (b) if CRS maintained adequate internal control over these resources. The Office of the Regional Inspector General for Audit/Washington coordinated the review and did audit work at CRS' headquarters. The offices of the Regional Inspectors General for Audit in Dakar, Senegal and Nairobi, Kenya audited CRS country programs in Burkina Faso and Kenya, respectively. The audit was made during the period December 1985 through April 1986, and covered calendar years 1984 and 1985. This is the first AID/Inspector General audit of the collection and expenditure of recipient fees.

Discussions were held with CRS officials in New York, Nairobi and Ouagadougou. Selected distribution sites were visited in Kenya and Burkina Faso where records were reviewed and discussions held with center officials, recipients and potential recipients. Source documentation, records and reports were tested in Burkina Faso and Kenya. At New York headquarters, country reports, accounting records, program budgets, internal audit reports and workpapers were tested.

Discussions were held with CRS' independent public accountants and AID officials. AID files and records were also reviewed.

The audit did not cover overall program management. With two exceptions, the audit was limited to recipient fees, sales of containers and disposal of unfit food. The scope of audit in Kenya included a financial and compliance audit of AID's specific support grant No. PDC-0006-G-SS-3122-00 for the period May 1, 1983 through December 31, 1985, and disbursement procedures related to AID Grant No. ASB-0000-G-SS-4208 for the period September 26, 1984 through September 25, 1985; however, individual transactions and reports were not tested.

In Burkina Faso, the audit included reviews of the handling of transportation loss claims and the food inventory and distribution system.

The audit was made in accordance with generally accepted government auditing standards.

AUDIT OF
CATHOLIC RELIEF SERVICES ADMINISTRATION OF
P.L. 480, TITLE II PROGRAMS IN BURKINA FASO
AND KENYA AND AT NEW YORK HEADQUARTERS

PART II - RESULTS OF AUDIT

Our audit showed that CRS has established a system for distributing large quantities of U.S. Government donated food commodities to undernourished people. However, improvements in CRS' program and AID administration were needed. The audit found that CRS and AID had not agreed on whether and to what extent AID regulations applied to CRS operations. As a result, CRS did not comply with AID regulations in (1) determining recipients ability to pay for food, and (2) obtaining AID approval and review of expenses paid from recipient fees and container sales. In addition, CRS improperly retained proceeds from sales of unfit food, spent funds from AID program grants in Kenya for unauthorized purposes, and improperly retained funds from inland loss claims and delayed recovery of claim proceeds in Burkina Faso. Also, CRS did not have good internal countrols over recipient fees and inventories of food in Burkina Faso.

A. Findings and Recommendations

1. Need to Define Recipients Ability to Pay for Food

In 1985, CRS estimated that fees of $10.7 million were collected from recipients in connection with CRS sponsored programs. 2/ AID regulations encourage recipient contributions, but only when such contributions are based on individual recipients' ability to pay. However, CRS and AID had not developed any measurement of "ability to pay." In the absence of criteria for determination of who would pay and how much would be assessed, the responsibility for the determination of fees was shifted to the field where fees were determined by CRS country program managers in conjunction with local counterpart agencies and host governments. Thus collection of fees was influenced by perceived needs to cover program costs or on host government demands that recipients pay a set fee as a condition of receiving food, rather than on individual ability to pay as required. As a result potential recipients, otherwise eligible, were denied food.

2/ This is an estimate because the Centers retain about 55 percent of the total fees collected and CRS does not account for the portion of fees retained by the Centers.

Recommendation No. 1

We recommend that Catholic Relief Services in cooperation with AID develop specific guidance to its country program directors on when and how much should be assessed to recipients, i.e., define in measurable terms recipients' "ability to pay." The guidance should include provisions to assure that otherwise eligible recipients are not denied food solely because of inability to pay and require Catholic Relief Services country program directors and counterpart agencies operating distribution centers to periodically certify that the guidelines are followed.

Discussion

Prior to June 1979, collections from recipients were designated under Regulation 11 as either "associated" or "unassociated" fees. The management of CRS historically maintained that collections were unassociated fees, i.e., not just for food, but for a broadly based program of services. Recipient fees were, therefore, considered by CRS to be private funds of CRS and not subject to AID regulations.

When Regulation 11 was revised in June 1979, the distinction between "associated" and "unassociated" charges was deleted. The regulation stated only that in maternal, preschool, school and other child feeding programs, payment by recipients would be encouraged on the basis of ability to pay. The regulation referred to charges for child feeding programs, but there was no stated prohibition in Regulation 11 on collecting fees from other programs such as emergency feeding and food-for-work and there was no specific definition or guidance established in the Regulation to determine a recipient's "ability to pay."

In Kenya and Burkina Faso, recipients who were otherwise eligible were being denied P.L. 480, Title II food because they could not pay the required fees. The same condition was found to exist in other countries.

Kenya - In Kenya, CRS counterpart agencies distributed food through food-for-work projects, school feeding programs and maternal/child health (MCH) centers. About 80 percent of the food was distributed through the MCH centers. Local church organizations operated 85 percent of the MCH centers; the remainder were operated by the Kenya Government or other voluntary groups. In response to an inquiry from CRS/New York, CRS/Kenya reported that the Kenya Government specifically approved the collection of fees in its agreement with CRS. The relevant clause in the agreement stated that

CRS will promote financial and in-kind community participation in development and/or social assistance programs.

During visits to nine of CRS' 140 MCH centers, 112 recipient mothers and 20 center officials were interviewed. Without exception the people interviewed told us that recipient contributions were required before the child or mother could receive food. Center officials said it was their policy to require fees because they believed that if they did not collect fees from everyone, CRS would discontinue sending food. Mothers said that they did not go to the centers for food unless they had money for the monthly fee of about $1.37.

Five needy individuals were interviewed who were not enrolled in the food program, but who were aware of it. They said that they had not attempted to enroll in the program because money was required to buy the food and they did not have the money.

Burkina Faso - In Burkina Faso, CRS reported Title II food distributed to over 2,000 maternal/child, health (MCH), school feeding (SF), food for work (FFW) and general welfare (GW) programs. Most of the food was targeted to eliminating malnutrition among children and providing emergency relief.

During site visits to 20 of 2,000 CRS sponsored distribution centers, center managers said they had no authority for free distribution; they believed food shipments from CRS would be cut off if CRS bills for shipment of food were not paid. They also expressed concern that free distribution to any recipient would create a precedent for others to seek the same privilege. At two MCH centers, mothers who did not pay the $.59 fee were denied food. At one school visited, students who could not pay, relied on other students to give them a share of their ration.

In 1984 and 1985, CRS received about 28,000 tons of emergency food. CRS targeted this assistance to 434,000 recipients participating in the MCH program. A $.59 per month fee for distribution of emergency rations was charged in 1984, in addition to the fee charged for the regular program. Although CRS officials told us that distribution centers had been instructed not to charge for emergency distribution, an April 1984 directive instructed centers to provide emergency food only to recipients already enrolled in the MCH program who were willing to pay the additional fee. The directive also increased the billing rate to the centers for delivery of food from $11.00 to $59.00 per metric ton. According to CRS/Burkina Faso officials, billings to the centers for emergency food were discontinued in 1985. Although we found that three of four MCH Centers eligible for emergency food also charged recipients in 1985, we found no evidence CRS billed Centers for this food.

Worldwide - Prior AID and CRS internal audits have also noted confusion over the collection of fees resulting in recipients being denied food. In Ethiopia, for example, CRS auditors found that fees were being collected in 1984 and 1985 under emergency feeding programs. In June 1982, AID's Regional Inspector General for Audit/Nairobi reported that recipients in Kenya were denied food because CRS policy on the issue was unclear.

In February 1985, CRS headquarters polled its country program directors on the collection and use of recipient fees. Responses showed that programs in Bolivia, Mauritania, and Indonesia required a fee as a condition of receiving food.3/ Senegal and Tanzania reported that there were no exceptions to the collection of fees and that this was part of CRS' agreement with the host government. Six other CRS country programs also reported that their agreements with the host governments included clauses on the collection of fees. These clauses either required the collection of fees or encouraged fees as a means of financing program costs.

In addition to CRS' agreements with host governments, virtually all agreements with counterparts also required the counterparts to collect fees from recipients as a condition of continuing to receive Title II food. Typically, distribution centers were billed for a portion or all of the inland freight, warehousing and administrative cost of delivering food. If the counterpart did not pay these billings, food shipments were discontinued. Thus the stated CRS policy of no one being denied food because of inability to pay was offset by CRS requirements to the contrary that forced the Centers to generate income to pay the bills from CRS. We could find no evidence that CRS or AID recognized the incongruity of a policy rendered inoperative by conflicting requirements.

3/ Regulation II, Section 211.3(b) requires that each voluntary agency shall, in addition to entering into a Food For Peace agreement with AID, enter into a separate written Food For Peace agreement with the foreign government of each cooperating country. CRS documentation shows that, as of August 1985, eight governments specifically approved recipient contributions. We could find no documentation where CRS or AID had questioned the validity of the fee requirements in CRS' individual agreements with host governments.

As a result of an internal CRS study, during our audit CRS moved to clarify its policy on the collection of recipient fees. The Executive Director instructed field programs that:

-- Under no circumstances would fees be collected on emergency programs.

-- Contributions were to be encouraged only on the basis of ability to pay. Under no circumstances would needy persons be excluded from the program because they were unable to make a contribution.

-- Reserve funds accumulated from recipient fees were to be limited to a 3-4 month operating cost level.

-- Borrowing from the recipient fees fund to cover other fund activities must have specific headquarters approval.

-- Recipient fees were to be considered U.S. Government program related funds subject to AID monitoring.

These instructions represent a significant change in CRS policy with regard to the collections of recipient fees. CRS in cooperation with AID now needs to implement this policy by defining what constitutes ability to pay, by issuing directives to the field to assure that otherwise eligible recipients will not be denied food, and by properly accounting for all collected funds in a manner consistent with AID regulations. Failure to provide specific instructions on when to collect fees and how to determine recipients ability to pay will continue to foster the possibility of recipients being denied food because they cannot pay prescribed fees. In those cases where host governments attempt to require procedures to the contrary, AID assistance should be sought to negotiate agreements consistent with AID objectives and regulations.

CRS Response

CRS officials heartily supported our recommendation to work with AID in developing and defining a worldwide formula to define "ability to pay." CRS officials said that AID Regulation 11 specifically provides for the generation of funds from recipient contributions and such proceeds to be used for the payment of program costs in support of the Title II program. It is thus clear that AID approves of the concept of recipients contibutions. CRS and AID historically failed to agree on whether AID regulations pertained to CRS's nutritional and edcuation programs and charges related thereto.

The audit report's technical language does not indicate need for CRS' program representatives in a particular country to undertake a budget process and anticipate revenue to be received in order to support the conduct of a feeding program. As in any economic excerise, a per capita cost must be computed to cover the expenses of moving tons of food overland, warehousing the same, safeguarding against contamination and ultimate distribution. Only so much financial assistance can be anticipated from the sponsoring agency and the balance must be supplied by what AID itself authorized, namely recipient contributions. As a matter of pure economics food cannot be moved or distributed without cost. Both CRS and AID recognized that a charge could be requested from recipients based on the ability to pay.

What is indicated, is that in a limited number of countries, either host government requirement or confusion on the part of counterpart agencies produced a situation where fees were charged other than on a pay when able basis. In Burkina Faso for instance, over 90 percent of the population is functionally illerate. How easy for a targeted recipient to misunderstand the "voluntary" nature of a contribution or how simple for a native manager of a feeding center in order to provide for payment against delivery of supplies.

Office of Inspector General Comments

We concur with CRS that AID regulations allow for collecting recipient fees and the funds collected should be budgeted against expected expenses. Further, we recognize that CRS does not absolutely control the actions of host governments or counterpart agencies. However, this unfortunate situation of denying food to eligible recipients based on a requirement to pay to receive food occurred. We believe that implementing the above recommendation will help alleviate this problem in the future.

CRS in their comments to the draft audit report asserted that the audit report acknowledged that CRS policy did not mandate collection of recipient fees in order to receive food. The audit report not only makes no such acknowledgement, but supports the contrary conclusion. Further, CRS' response (Appendix A pages 6-8) describes why recipient fees were collected and the need to collect fees in the future.

2. Need to Better Control Program Costs

AID regulations specifically identify salaries, commodity transportation and storage costs commodities as allowable costs for the Title II program. Other program related expenses, such as rent, require advance AID approval. Because AID and CRS disagreed on the application of AID regulations to CRS operations, CRS and its distribution centers spent funds derived from recipient fees and container sales for costs not specifically allowable without getting AID approval. Although funds spent were mostly for program related support, better CRS controls and AID review would have assured effective and economic use of these monies, potentially increasing the number of recipients able to participate in the Title II program. CRS reconsidered its position as a result of an internal study and subsequently agreed to comply with AID regulations.

Recommendation No. 2

We recommend that Catholic Relief Services:

a. prescribe procedures to obtain advance AID approval for program expenditures not specifically authorized by Regulation 11;

b. periodically report to AID on the receipt and disbursement of revenues derived from the operation of the Title II program; and

c. develop procedures to assure that distribution centers collect and disburse recipient contributions and proceeds from the sale of containers in accordance with the regulations.

Discussion

AID Regulation 11, Section 211.5(i), stipulates that "funds generated from recipient contributions and the sale of empty containers be used for the payment of program costs such as transportation, storage (including the improvement of storage facilities and the construction of warehouses), handling, insect and rodent control, rebagging of damaged or infested commodities, and other program expenses specifically authorized by AID to carry out the objectives of the program for which the commodities were furnished. Funds may also be used for payment of indigenous and/or third country personnel employed by cooperating sponsors or recipient agencies in support of Title II programs. However, such funds may not be used to purchase land for sectarian purposes, to acquire or construct church buildings, or to make alterations to existing church-owned buildings."

The Regulation also requires that cooperating sponsors periodically prepare Operational Plans (Section 211.5(a)) and summary reports of receipt and disbursement of any funds accruing from the operation of the Title II program (Section 211.10(a)). The Regulation does not stipulate that reports on the receipt and distribution of funds be submitted to AID but does require cooperating sponsors to submit to the overseas missions any reports prescribed by AID.

CRS routinely included expected recipient contributions and container sales and the planned expenditures of these funds in the financial sections of its Operational Plans. However, the information was not in enough detail for AID to determine if planned expenditures complied with the Regulation and AID never summarized this data worldwide to determine the signifiance. Further, actual CRS performance against these Operational Plans was neither required nor reported to AID.

Until 1985, CRS maintained that recipients paid fees for other services provided by CRS, not for the receipt of Title II food, and fees therefore were not subject to AID reporting, monitoring or audit. Because of this, AID remained largely unaware of the magnitude of fee collections and for what the funds were used. According to CRS estimates, fee collections in 1985, including amounts retained by distribution centers, amounted to about $10.7 million and sales of containers generated another $526,000. These amounts had to be estimated because CRS does not include amounts retained by the distribution centers for their operations in its CRS headquarters accounting records. Reports from CRS country directors indicated that over 50 percent of the amounts collected were spent at the Centers. Although generally used for program support, we found several instances where monies spent by CRS were questionable.

Kenya - In Kenya the food program generated about $900,000 and $1.2 million in 1984 and 1985, respectively. About 50 percent of these funds were used at the distribution centers to pay for local transportation, handling and salary expenses. The balance was remitted to CRS/Kenya and used to pay such items as office rent, office supplies, utilities, administrative travel, vehicle repairs, etc. These overhead items amounted to $73,706 in 1984 and $50,106 in 1985.

Salaries for local staff were allocated among CRS' various activities and projects. Although the regulations allow for payment of local salaries, CRS had no rational system for allocating the costs which amounted to $150,859 and $116,452 in 1984 and 1985 respectively. At the time of our audit, the condition had not been corrected.

In addition to the funding of administrative type costs and allocated salaries, six vehicles costing $43,000 were purchased in 1983, (prior to the period covered by this audit) from recipient fee contributions in Kenya. The vehicles were used in support of the Title II program.

Recipient fees were also used to support feeding programs sponsored by the European Economic Community (EEC) and to transport medicines under a Church sponsored program. The EEC food was stored and shipped alongside Title II commodities. Payment for handling transportation and storage was initially made from recipient contributions. CRS/Kenya then billed the EEC. Reimbursement often took three or four years. In 1984 and 1985, for example, over $20,000 was reimbursed for shipments made as long as four years earlier. Also the Community failed to reimburse about $1,280 of such expenses.

CRS/Kenya did not know what the proceeds from the sale of empty containers were used for because distribution centers were allowed to keep empty containers and use them as they saw fit. CRS had little information on whether or not containers were sold and, if sold, what the proceeds were used for.

The CRS/Kenya country director told us that expenditures from fee revenues were made in accordance with budget guidance provided by CRS headquarters. Since 1981, this guidance has increasingly placed more emphasis on funding program expenses from program generated revenues rather than using CRS funds. By funding more program expenses with recipient contributions an increased burden was placed on recipients to cover program costs. At the end of 1984, the fee was increased from the equivalent of $1.10 to $1.33 for an MCH ration.

Burkina Faso - Due to weakness in accounting and internal controls, the equivalent of about $407,000 in recipient fees that should have been collected in 1984 and 1985 was unaccounted for. CRS/Burkina Faso billed its 2,000 distribution centers operated by counterpart agencies at fixed rates of $12 to $59 per ton during 1984 and 1985. The centers in turn collected fees from recipients to pay these bills and to cover their own operating costs. Based on the fixed rates, CRS should have generated about $1.1 million during the two year period, the records show only $693,000. The balance was unaccounted for. A CRS study in late 1985, showed only a 59 percent collection rate from the centers, based on the rates in effect and the tonnages shipped. The study did not include data to account for the difference or to show if the funds were subsequently collected. The existing accounting system and related internal controls were not adequate for CRS to determine if bills were paid, forgiven, lost, or overlooked or if the funds had been diverted 4/.

In 1984 and 1985, CRS/Burkina Faso spent the equivalent of about $175,000 for administrative costs such as office expenses and travel that were beyond the costs specifically permitted by Regulation 11 and were not specifically approved by AID. However, the expenses were in support of the CRS program.

Headquarters--CRS headquarters records showed that general operating expense charges to recipient fees for all Title II country programs totaled about $1.1 million for 1984 and 1985. CRS headquarters accounting statements and bank records also showed recipient fees and container sales fund balances for Title II programs that had been discontinued. The program in Zaire, for example, had been terminated, but in 1985 recipient fees equivalent to $63,000 remained in a CRS/Zaire bank account. This amount obviously cannot be used to cover P.L. 480, Title II program costs because the Zaire program no longer exists.

Finally, recipient fees were collected to cover program costs that were already covered by AID outreach grants, grants which were made to cover logistic and material support costs identical to the costs the fees were ostensibly collected to cover. AID was unaware that fees were being collected from recipients under these grant funded activities. CRS officials stated that the collection of such fees was made quite clear to AID in the outreach grant proposals and the fees were collected to fund program activities after the expiration of grants.

Office of Food For Peace officials told us that they did not recall receiving any requests from CRS to authorize charges to be paid from recipient contributions. This was consistent with CRS' position that its program need not conform to AID regulations. AID officials did say however that, if requested, they would have authorized charges incurred to carry out the specific objectives of Title II programs.

4/ During the course of the audit, CRS/Burkina Faso reviewed the practices of a cashier who had been employed since 1974. As a result the cashier was arrested for embezzling unknown amounts of money collected from distribution centers.

We believe CRS needs a reporting system for fees and container sales in enough detail to provide AID the information necessary to effectively monitor CRS' Title II program activities and expenditures. CRS' recent decision to comply with AID regulations should significantly improve the control and use of funds derived from recipient fees and container sales.

CRS Response

CRS did not directly respond to the finding and recommendations. CRS said that they believe the audit report infers that CRS has the ability to increase its financial support for the programs and such an inference is not valid.

Office of Inspector General Comments

We believe that implementation of the above recommendations is essential for AID's oversight and control of program resources generated from U.S. Government sponsored feeding programs. The end result will be adequate procedures and information for CRS and AID to manage these resources. CRS, in response to this report, should provide AID management specific comments on actions planned to implement these recommendations.

3. Lack of Control Over the Disposal of Unfit Food

CRS and its counterpart distribution centers were not following procedures required by Regulation 11 for the disposal of unfit food. As a result, about $544,000 in proceeds from the sale of unfit food remained in CRS accounts at the end of 1985. This amount, net of expenses should be returned to the U.S. Government. Also, AID had no assurance that all food disposed of was indeed unfit and handled in such a manner as to protect health and life.

Recommendation No. 3

We recommend that Catholic Relief Services:

a. provide an accounting report on sales proceeds of unfit food and expenses actually incurred, and deposit the balance due with the U.S. Treasury; and

b. prescribe procedures to dispose of unfit food in accordance with Regulation 11.

Discussion

AID Regulation 11 Section 211.8(b)(4) requires that AID approve the disposal of commodities determined to be unfit for human consumption. The order of priority for disposal is:

1. By transfer to an approved Food For Peace Program for use as animal feed.

2. By sale for the most appropriate use; i.e., animal feed, fertilizer or industrial use at the highest obtainable price.

3. By donation to a governmental charitable organization for use as animal feed or for other nonfood use.

4. By destruction under the observation of an AID representative in such a manner as to prevent its use for any purpose.

Regulation 11, Section 211.8(b)(4) states that actual expenses incurred in effecting any sale may be deducted from the sale proceeds and the net proceeds shall be deposited with the U.S. Disbursing Officer, American Embassy, with instructions to credit the deposit to the Commodity Credit Corporation. The cooperating sponsor shall promptly furnish AID a written report of all circumstances relating to the loss and damage of the commodities.

CRS was not complying with the regulations. CRS headquarters accounting records showed that CRS had retained the equivalent of $544,390 in proceeds from the sale of unfit food. This amount net of actual expenses of the sales should have been remitted to the U.S. Treasury.

Review of CRS internal audit reports showed in addition that:

-- There were delays in remitting the proceeds from the sales of unfit food in the Philippines to the U.S. Government.

-- A distribution center in Morocco did not obtain the required CRS and AID approvals for its disposal of unfit food.

-- Documentation for the disposal of unfit food in Ghana was inadequate, i.e., a health certificate was not obtained and there was no evidence that AID had authorized destruction or that an AID representative had witnessed destruction. Also, substantial amounts of commodities were sold to staff and transporters which appeared to violate the order of preference outlined in Regulation 11.

CRS needs to comply with the regulations to assure that unfit food is properly disposed of in the prescribed order of priority and net sales proceeds are promptly remitted to the U.S. Government.

CRS Response

CRS stated that the audit report infers that the amount of $544,000 in proceeds from the sale of unfit foods is allocable to the Burkina Faso and Kenya programs. While claims for inland losses and unfit food sales on hand on December 31, 1985 amounted to $544,398, the bulk of this U.S. Government fund, some $446,000, is being held in four countries. The remaining $98,000 was spread over 15 countries. A determination and settlement with AID has been made in three of these countries. CRS is still awaiting a final determination on approximately $100,000. CRS further agrees that it will seek to improve its review procedures on the disposal of unfit food and remit on a more prompt basis that portion of this money due to AID from such sale.

Office of Inspector General Comments

CRS responded to the finding and our recommendation and has taken corrective measures on most of the recommendation. However, closure of the recommendation depends upon final settlement and issuance of procedures.

4. Kenya Grant Funds Were Used for Unauthorized Purposes

CRS/Kenya received two AID grants totaling $1,836,773 to assist in relocating their food assistance program to needier areas of the country and for transporting emergency food assistance. Portions of both grants were used by CRS/Kenya to fund unauthorized program activities and to generate a sizeable reserve fund at grant fund expense, i.e., expenses that should have been charged to recipient fees were charged to U.S. Government funds while recipient fees were accumulating in CRS accounts. According to the provisions of one of the grant agreements, recipient contributions should have been used to offset program expenses before using grant funds. Grant funds of $145,808 were disbursed to cover expenses that should have been covered from the recipient contributions fund. Under the other grant, CRS/Kenya used $175,560 to fund regular program expenses although the grant was awarded to transport emergency foods. Unauthorized expenditures of grant funds apparently occurred because the CRS country director believed that grant funds could and should be used to support his entire program in Kenya.

Recommendation No. 4

We recommend that Catholic Relief Services:

a. refund to AID $145,808 which could have been offset by recipient contributions under AID specific support grant No. PDC-0006-6-SS-3122-00; $621.55 for a double payment under the same grant; $11,656.03 for the construction/renovation of storage facilities at an ineligible center; $7,802.73 for expenses incurred prior to the grant period under the same grant; and $174,560 for payments under AID Grant No. ASB-0000-G-SS-4208 made to transport nonemergency food; and

b. provide support or refund questioned voucher costs totalling $4,269.

Discussion

Outreach Grant--In 1982, the Office of the Inspector General issued an audit report which stated that CRS/Kenya maternal/child health centers were not located in the geographic areas where the need for food was most prevelent. The report recommended that CRS/Kenya retarget the food distribution program to serve needier areas. In 1983, CRS/Kenya received an AID Specific Support Grant No. PDC-006-G-SS-3122 for $423,100 to assist in retargeting the food distribution program to drought prone areas. The effective period of the grant was May 1, 1984. The grant was twice amended, increasing the total grant to $823,488 and extending the expiration date to December 31, 1985.

CRS/Kenya designated 64 centers in 1984 and 61 centers in 1985 to be supported with these outreach grant funds. Most of these centers were existing centers where enrollment was to be expanded, rather than newly created centers. CRS/Kenya used AID grant funds to pay the handling, transportation and storage costs associated with moving food to those centers.

During the same period, the outreach centers generated $145,808 in recipient contributions which were remitted to CRS/Kenya. These contributions were deposited with contributions from regular centers and available for paying regular program costs. These recipient contributions were not used to offset the use of AID grant monies. In addition and of significant note, it was during this period that CRS/Kenya began generating a sizeable unprogrammed cash surplus - $189,861 as of December 31, 1985.

The grant agreement stated in part "... the retargetting of commodities and recipients to drought-prone areas such as Kitui and Garissa will require funds to offset initial shortfalls in program revenue." The grant agreement also stated that "...CRS/Kenya plans to use the grant funds for transport and storage <u>only when locally generated areas have not as yet the fiscal ability</u> to meet such would necessity come from outreach (sic)." 5/

The stated purpose of the grant was to enable CRS to undertake a significant retargeting of recipients in the P.L. 480 Title II program in Kenya such as the drought prone areas in Turkana, Kitui, Garissa and the costal provinces. According to the USAID/Kenya food for peace officer, the grant was not intended to subsidize the entire country-wide CRS/Kenya food distribution program or to build a cash reserve, but rather to help finance the establishment and expansion of specific centers in the needier areas. Accordingly, we are disallowing the $145,808 which could have been offset by available recipient contributions.

The audit of this grant also identified instances of a double payment of $621.55; expenditures of $7,802.73 for expenses incurred prior to the audit period; expenditures of $11,656,03

5/ Underscoring added. This grant language is, at best, unclear; however it certainly appears that as fee revenues became available in the outreach areas (when "locally generated areas" have the fiscal ability), the fee revenues were to be used in lieu of outreach funds to meet handling, transportation, and storage costs.

for construction/expansion of storage facilities at ineligible centers; and unsupported vouchers totalling $4,269.

Office of Foreign Disaster Assistance Grant--During 1983 and 1984 Kenya suffered from a drought. Consequently, AID's Office of Foreign Disaster Assistance (OFDA) awarded CRS/Kenya a $1,013,285 grant to provide support for transporting 6,531 metric tons of P.L. 480 emergency food for the period September 27, 1984 through September 26, 1985. The AID Grant number was ASB-0000-G-SS-4208.

To implement the emergency food assistance program, CRS/Kenya merely designated 88 existing centers in the drought areas as "OFDA centers" and directed those centers to double the rations provided to existing recipients. CRS/Kenya then used OFDA grant funds to pay the handling, transportation and storage costs associated with moving all food to those centers. CRS/Kenya also continued to have the centers collect regular recipient contributions, amounting to $228,483, during the grant period. As with the funds from outreach centers, these contributions were remitted to CRS/Kenya for funding the regular program and increasing the unprogrammed cash surplus.

The CRS methodology of charging the OFDA grant for all food movement costs to "OFDA centers" failed to consider that about one-third of the food moved to those centers would have been distributed under CRS' regular feeding program. Consequently, we are disallowing $175,560 about one-third of the costs charged to the OFDA grant for transporting regular program food shipments.

CRS Response

CRS stated that while these grants may have been used to fund unauthorized activities, all monies were expended in good faith to carry out program activities. CRS further stated that the Outreach grant proposal of February 25, 1982, was not approved until June 29, 1983, in the reduced amount of $423,100. CRS acknowledges that this grant contained a clause that CRS would not utilize grant funds for transport and storage unless locally generated areas had not the fiscal ability to meet such costs. However, the grant document also mandated a phase over plan through the build-up of locally generated funds. CRS accepted this grant with contradictory objectives based on the growing need in Kenya and its good working relationship with AID's Food for Peace Office. It was "go with what we have and straighten it out later." This is also in the face of the CRS/Kenya having gone bankrupt three times and CRS having to advance $62,000 to cover logistics in 1983-84. These monies were not free monies. As to the question of recipient fee inputs during the grant in 1984, CRS expended $305,712 and in 1985 it was $670,000, constituting over 92% of total recipient fees collected. The assertion that CRS built up a significant fund balance of $189,861 as of December 31, 1985 is also presented out of context. This represents a three to four month operating balance against anticipated transport costs for nine full months of shipping inputs still to arrive. Recipient funds in effect are revolving funds collected against deliveries and expended against new arrivals.

In conclusion, despite bankruptcies, CRS through its own inputs and that of the recipients, as well as Outreach, kept a food program going under extremely adverse conditions. Recipient funds were not "banked" in lieu of Outreach, but partnered to achieve the objective CRS and AID desired; the feeding of the poor in Kenya. CRS therefore requests the withdrawal of the recommendation that CRS return $145,208.

With respect to the reimbursement of $7,802.73 for expenses incurred prior to the audit period as well as $11,656.03 for storage facilities at ineligible centers CRS requested further details so that it might respond accordingly.

With respect to the OFDA grant, CRS again contests the concept that there were any inappropriate transport costs. In the first instance, the audit indicates CRS "merely designated" 88 existing centers in the drought areas as "OFDA Centers." CRS did not "merely designate centers." The drought prone area covered the existing CRS operational food distribution network which had already been expanded during the year of negotiation with AID. The specific areas affected by the drought and the centers to be assisted through OFDA funding were detailed in CRS' grant proposal. These centers were selected based on proximity to warehouses and overall transport network, as well as, need. Thus, the centers were selected on overall need and CRS' ability and capacity to deliver and distribute. The grant allowed CRS to select centers based on its proposal and track record.

Office of Inspector General Comment

As mentioned by CRS, the terms and conditions of these grants called for specific activities. Based on our review of these documents and CRS accounting records, we concluded that CRS used the grant funds for unauthorized purposes. Consequently, we must question the allowability of these expenditures and recommend refund to AID. Additional information needed by CRS to resolve our recommendation will be made available to CRS/Kenya. Resolution of this recommendation will require review by appropriate AID grant officers and Food for Peace project officers to determine the final refund due to AID.

5. CRS/Burkina Faso Lacked Control of Food Inventory

Reliable accounting records and an adequate system of internal control were required to properly account for the distribution of food donated by the U.S. Government. CRS/Burkina Faso had neither. Records were not available to account for about $2.6 million of food. These accounting and internal control problems previously were reported in CRS' internal audit reports, but CRS/Burkina Faso failed to take action. As a result, CRS/Burkina Faso could not properly account for the quantity of food delivered.

Recommendation No. 5

We recommend that Catholic Relief Services:

a. provide an accounting for food distributed in Burkina Faso in 1984 and 1985; and

b. require their office in Burkina Faso to establish an adequate accounting and internal controls system for P.L. 480, Title II food shipments.

Discussion

AID Regulation 11, Section 211.10(a), requires that CRS "maintain records and documents in such a manner which reflects all transactions pertaining to the receipt, storage, distribution and sales of commodities."

To comply with the regulation, CRS needed a system of accounting and internal control that included procedures to ensure and demonstrate that food was properly received, stored, transported to distribution centers, distributed to recipients, and that these transactions were recorded accurately.

There were major weaknesses in CRS/Burkina Faso's system. Although previous audit reports cited serious accounting and internal control problems, there was little evidence that corrective actions were taken. Similar problems were found in the current review.

Food arrivals from the port of Abidjan to CRS warehouses in Burkina Faso were controlled, but controls were inadequate with regard to both inventories in CRS warehouses and the distribution of food to recipients. Employees duties were not adequately separated to provide internal checks and warehouse transactions involving 4,600 tons of food valued at $2.6 million (about three percent of food delivered) could not be verified. CRS monitoring of distribution center controls over food was also weak.

In Ouagadougou, the employee in charge of recording warehouse transactions, food receipts and issuances was also responsible for (a) hiring truckers and orally negotiating transportation mileage rates and quantities, (b) collecting receipts from truckers for food deliveries to the centers, (c) preparing invoices for CRS payments to the truckers including negotiating adjustments for food lost enroute, and (d) forwarding finalized invoices to headquarters for verification and payment.

Under this system, CRS was vulnerable to food diversions and kickbacks. In late 1985, a CRS internal review disclosed that for years, the CRS transport system had been ineffective and the system was highly vulnerable to CRS employees receiving kickbacks.

CRS did not verify warehouse transactions against accounting records. When the auditors attempted to reconcile 1984 arrivals and distributions with food on hand at the warehouses, warehouse records reflected a shortage of 4,600 tons valued at $2.6 million. CRS officials attributed this difference to a change in stock control procedures which caused some amounts to be reported twice. However when the auditors attempted to verify this, they were informed that the CRS inventory ledger had misplaced.

This ledger, which had been available earlier during the audit, included all warehouse transactions and should have reflected a change in stock control procedures if such a change in fact occured. Not only could the explanation of CRS officials not be verified, but without the ledger, accountability for food arrivals and distributions between 1982 and 1985 was lost. There is no assurance that the ledger can be accurately reconstructed because the shipping and billing documents needed to do so were not controlled and may have been misplaced, destroyed, or unavailable for other reasons.

CRS also needed to better monitor distribution center uses of food delivered. Field visits to 20 distribution centers disclosed that centers were not recording food distributions daily. Instead, the centers relied on weekly differences in counts between beginning and ending inventories to record distributions. As a result there was no assurance that food was distributed as required. Because center officials were unfamiliar with inventory procedures, they did not maintain adequate controls over inventories. Most centers had unexplained differences between inventory records and quantitities on hand.

CRS internal auditors had previously reported accountability and internal control problems. The latest report covering the period October 1978 through April 1982, cited problems of missing ledgers and delivery receipts, an inaccurate master ledger, inadequate end-use checks, diversions of food by CRS employees and failure to fully report losses to AID. According to CRS, 40 of the 45 report recommendations have now been closed.

CRS Response

CRS commented that during the audit in Burkina Faso, the CRS Program Director acknowledged that the transport system was vulnerable to abuses. The Director shared with the auditors an internal review previously completed by CRS on this issue. The Director further indicated CRS had hired a consultant to identify the most feasible and sound transport arrangement, as well as specific contracts to assure its implementation. However, the CRS Director believes that, contrary to the auditors findings, CRS/Burkina Faso has a well defined delineation of warehouse duties and responsibilities. Furthermore, CRS reported that the "missing ledger" has been found and is available with original source documents for AID review.

Office of Inspector General Comments

The conditions encountered during the audit in Burkina Faso led to our conclusions and recommendations. We believe that CRS/Burkina Faso should submit to USAID/Burkina Faso adequate documentation to show that an adequate accounting system and related internal controls have been established for the P.L. 480, Title II commodities. The major internal control weaknesses reported relate to segregation of duties not delineation of duties. Duties can be adequately delineated but can still result in a significant internal control weakness. In regard to the "missing ledger," CRS should make this ledger available to the USAID/Burkina Faso for review.

6. CRS/Burkina Faso Improperly Retained Claim Proceeds

When CRS/Burkina Faso filed claims for inland freight losses, it treated each truck or railcar involved as a separate claim for purposes of determiming the amount of the claim to be retained by CRS for administrative costs. Also, CRS/Burkina Faso was not recovering and submitting claims in a timely manner. As a result, CRS improperly retained approximately $89,000 and did not promptly collect and remit additional claims of $153,000.

Recommendation No. 6

We recommend that Catholic Relief Services in Burkina Faso:

a. deposit $89,000 of claim proceeds with the U.S. Government that were improperly retained for administrative costs, and

b. resolve outstanding claims and deposit the proceeds in a timely manner.

Recommendation No. 7

We recommend that Catholic Relief Services:

a. issue instructions to all country directors administering P.L. 480, Title II programs on the proper retention of claim proceeds for administrative costs; and

b. poll all country directors to identify claim proceeds improperly retained and arrange for prompt deposits of these funds with the U.S. Government.

Discussion

For landlocked countries such as Burkina Faso, Regulation 11, Section 211.9(g)(iii)(e)(2), allowed CRS to keep $100 from each claim to cover administrative costs of handling loss claims between port and destination.

CRS claimed the $100 for each truck or railcar in a shipment which incurred losses, whereas the claims should have been on the basis of $100 for the entire shipment. Through this method, CRS improperly retained about $89,000.

CRS officials stated that the normal commercial practice was to claim for each railcar or truck. Also, that the forwarding agent in Abidjan, Ivory Coast required the claims to be submitted in that manner. Inquiries in Abidjan revealed that CRS actually had submitted claims to the forwarding agent by total shipment but nevertheless retained $100 for each truck or railcar on which shipment losses occurred.

CRS was not timely in resolving claims and collecting proceeds and/or remitting claim proceeds to the U.S. Government, as required by Regulation 11, Section 211.9(g). The audit identified about $153,000 uncollected or collected but not remitted to the U.S. Government in 1984 and 1985. In February 1986, CRS remitted $86,225. The balance was still due at the time of our audit.

CRS Response

CRS commented that AID regulations state that cooperating sponsors may retain $100 of any amount collected on "a claim." This is a recognition of costs incurred in calculating, processing and pursuing claim settlements. CRS stated that what is in question is the definition of a "claim." The auditors contend that a claim represents the totality of a shipment. CRS' contention is that, in the spirit of the $100 allowance, a "claim" represents any segment of a delivery, such as a single truck load. Since Burkina Faso is land locked, deliveries from the port in another country are forwarded in various lots by individual truckers or by rail. Thus, individual shipments are created and claims must be filed on the declared loss or damage based on the way bills arriving in Burkina Faso.

CRS commented further that administrative claim allowances were, in the main, channeled back into program support costs linked to Title II. As of August, all the monies have now been remitted to USAID/Burkina Faso.

Office of Inspector General Comments

We found that CRS had been submitting claims to the forwarding agent on the basis of total shipment. Therefore, we do not accept CRS' position that claims should be broken down for individual truck or rail cars. Furthermore, we do not agree that claim processing should be the basis for generating program income. The fact that CRS channels the administrative claim allowances into the country program does not change our position that claim proceeds be returned to the U.S. Government. CRS/Burkina Faso should submit documentation supporting its position to the AID Food for Peace Office for consideration to resolving the above audit recommendation.

B. Compliance and Internal Control

1. Compliance

a. CRS did not comply with AID Regulation 11 which requires that recipients not be denied food because of inability to pay (see Finding No. 1).

b. Because of a lack of agreement, CRS did not seek AID approval to use recipient contributions and funds from the sale of containers for certain administrative expenses and other payments not specifically authorized by the Regulation (see finding No. 2). In December 1985, CRS issued new guidelines for the collection and use of recipient fees. These guidelines are a substantial improvement in the criteria available to in-country managers. However, the guidelines allow for the use of fees to pay general operating costs; i.e., overhead type expenses. These expenses are not specifically authorized under AID Regulation 11 and require AID approval. At the time of our audit, CRS had not submitted the guidelines to AID for review.

c. CRS did not handle the disposal of food unfit for human consumption in accordance with the Regulation (see Finding No. 3).

d. CRS/Kenya did not comply with the terms and conditions of AID grant agreements regarding the use of grant funds (see Finding No. 4) and CRS/Burkina Faso did not handle claims in accordance with the regulations (see Finding No. 6).

2. Internal Control

CRS internal controls in headquarters and the field needed strengthening. Our review of the accounting system and related internal controls showed that adequate safeguards were not in place to assure effective monitoring of P.L. 480, Title II programs. This left not only the commodities inadequately protected but also the resultant collection of fees and other funds generated by the programs.

a. Headquarters

(1) Accounting

CRS needs a descriptive chart of accounts for its accounting system and better review of financial reports submitted by country programs. Adjustments to the accounts by journal entry also need better documentation and formal review.

The account titles in CRS' chart of accounts are descriptive; however, there is no detailed explanation of what should be included in each account. As a result, the accounting for similar transactions was not uniform. We found, for example, that during 1984 and 1985, the Kenya program recorded recipient fees as an offset in the expense accounts, thereby underreporting both the amount of fees collected and expenses incurred by a total of $474,000. In 1985, transactions of $10 million worldwide were recorded in an "Assistance for Socio-Economic Development Programs" account because the field reporting was not detailed enough to identify line item classification. These entries, in many cases, were made because the financial reports from country programs contained errors, i.e., transactions obviously coded to the wrong accounts. Comptroller office accountants therefore altered the coding on the country financial reports to record the transactions as miscellaneous expenses pending followup with country officials to determine proper accounting. Due to heavy workload, comptroller office personnel did not always followup. We believe that miscoding at both the headquarters and field levels could be minimized if employees had access to detailed account descriptions.

The monthly financial reports submitted from the field need a more thorough review to resolve anomalous items. For example, isolated cases were found where reported beginning balances for cash on hand and accounts receivable did not agree with the ending balance reported for the prior month. Accounts receivable balances reported by individual countries were significantly different than the balances in control accounts maintained at headquarters. Headquarters calculated country program accounts receivable by adding billings to, and deducting payments from, the balance at the beginning of the period. In many cases the resultant balance of accounts receivable did not agree with the balance reported by the field. In Kenya, for example, the receivables reported for the recipient fees fund were $2,074 on December 31, 1985; the control account had a balance of $7,951. For Tanzania, the control account showed a balance of $506,651 whereas the receivables reported were only $29,709. Because they did not have detailed field information, Comptroller office personnel simply adjusted their account balances to the field reports, arbitrarily writing off substantial amounts of receivables.

General journal entries were initiated by accountants at headquarters and processed by the data processing unit. There were no written procedures for how and when general journal entries were to be used. Also, there were no numerical controls and no formal review procedures for journal entries. The form used does not require an explanation of the basis for the entry. We found for example that an adjusting entry was made at the end of the year, adjusting all general ledger control accounts for accounts receivable to the amounts reported on the December 31, 1985 financial reports from the field. As noted above, the adjustments were substantial, yet there was no investigation by headquarters of the unexplained differences. The adjustment was made because original documents remained in the field and it was assumed that the latest amounts reported by the field were the most accurate.

There were cases where "white-out" had been used to alter account numbers on financial reports before processing, thereby eliminating any opportunity to review the original entry and the propriety of the change.

In one case, funds were transferred from one fund to another. However, the amount transferred out did not agree with the amount transferred in. There was no explanation for the difference.

(2) Internal Audit

CRS has a formal system for followup on internal audit findings and recommendations, and CRS internal audit reports identified significant, critical findings in some of the areas included in our review. Five reports noted that recipient fees were not properly accounted for. Two reports noted that sales of containers were not properly managed. Two reports noted that required approvals were not obtained for the disposal of unfit food. Two reports included findings on ineligible recipients receiving food. However, corrective actions were in some cases not initiated in a timely manner by CRS management.

We also identified problems with audit coverage and documentation. CRS had enough staff to cover only a small percentage of the program each year. Only nine audits were completed in 1984 and six in 1985 on the 37 country Title II programs. The staff consists of a director and two auditors, plus four interns and three contractors. The Director has authority to hire additional staff, but he noted that it is very difficult to recruit qualified staff due to the continuous travel under arduous conditions.

The CRS internal audit manual provides for comprehensive audit coverage, including checklists highlighting major points of internal and accounting control for each of the major areas to be covered. The manual stipulates that by completing the checklists, the auditor can (a) be more assured that audit coverage is adequate and (b) facilitate supervisory review by including the completed checklists in the workpapers. The audit workpapers for Kenya and Burkina Faso showed that some checklists were either not included, or if they were included there was little evidence that the checklist issues were adequately covered.

It was very difficult to reference reported findings, positive or negative, to the audit workpapers, because the draft reports were not indexed to the workpapers and the workpapers did not clearly identify the scope and results of specific audit areas.

b. Field

(1) CRS/Kenya's internal controls were weak in several areas.

CRS field accounting systems were cash systems which lacked ledgers to control receivables and payables. Consequently, we were unable to verify amounts reported in CRS/Kenya's report to headquarters. Books contained numerous changes to entries and amounts. These changes were not annotated so it was impossible to determine who had made the changes. The opportunity therefore existed for unauthorized personnel to change the records. The potential existed for CRS/Kenya to pay bills twice or to record them to the wrong program because copies rather than originals were used to support two or more vouchers. This weakness had been pointed out by a 1983 internal audit but had yet to be corrected.

CRS/Kenya had no rational system for allocating admininstrative costs. While CRS/Kenya officials stated that allocations were based on budgets, we were unable to locate the details supporting such budget allocations.

As noted in the findings section of this report, there were serious gaps in CRS/Burkina Faso records and controls over the food inventory and the funds generated by the Title II program.

(2) Other internal controls we tested appeared to be operating satisfactorily.

AUDIT OF CATHOLIC RELIEF SERVICES ADMINISTRATION OF P.L. 480 TITLE II PROGRAMS IN BURKINA FASO AND KENYA AND AT NEW YORK HEADQUARTFRS

PART III - APPENDICES

RESPONSE OF

CATHOLIC RELIEF SERVICES, USCC

TO

INSPECTOR GENERAL, AGENCY FOR INTERNATIONAL DEVELOPEMENT

AUDIT OF

PL 480, TITLE II PROGRAMS IN BURKINA FASO

AND KENYA AND NEW YORK CENTRAL OFFICE

Catholic Relief Services, United States Catholic Conference, as the official overseas relief and development agency of the American Bishops, (hereinafter "CRS"), responds herewith to the recently conducted audit of the Office of the Inspector General, Agency for International Development of the conduct of CRS' utilization of PL 480 Title II foodstuffs in the countries of Bukina-Faso and Kenya in Africa and related oversight comments on CRS' internal accounting and audit practices at its New York headquarters.*

At the outset, CRS welcomes the observations of the Inspector General as they not only reveal certain human shortcomings in the undertakings of CRS but also set forth the honest efforts of CRS as the largest single resource of the Agency for International Development (hereinafter "AID") in the distribution of food to the hungry of the world.

By this document however, CRS seeks to respond to specific findings and allegations contained therein with which it does not agree and further, to complete the picture outlined by the Inspector General's audit report which does not, in the technical terms and findings thereof, fully indicate the immensity of size and difficulty of scope involved in the conduct of any feeding program and particularly the two which have just been audited. In an earlier telex, dated May 26, 1982 the AID mission in Kenya advised Washington "Movement and management of food is costly at best and prohibitively expensive in the northern areas of Kenya."

Where fault has been found it shall be corrected. Where need for improvement has been noted, it shall be undertaken, but always with the recognition of the difficulties encountered in operating in countries with severe geographic, infrastructural and cultural constraint. These factors will never permit a totally successful "textbook" operation.

With these initial observations, the following general comments are expressed to be followed by specific responses to the categorized headings of the audit report itself.

The office of the Inspector General has concurrently issued an audit of the activities of AID in the oversight of the CRS programs at issue.

* * * * *

Catholic Relief Services, expanding its prior disaster and refugee relief endeavors, established a health and nutrition education program in Mexico in 1960 which was classified as "Fund 322". Its support was premised on contributions from American private individuals as well as CRS' own funding. In 1962 the program was extended to Kenya and subsequently to other countries throughout the world.

In the late 1960's, CRS first began to utilize PL 480 Title II foodstuffs as supplemental benefits to the health and nutrition education format. As CRS expanded its operations into other countries, responding to the needs of malnutrition and infant mortality, monetary constraints led to a decision to seek contributions from those who would benefit from the program, on a pay when able basis. The philosophy was to avoid the concept of a dole and to preserve an individual's sense of personal dignity. This was entirely consistent with AID regulations which did not require either pre charge or post expenditure approval, ("unassociated charges").

In 1979, AID modified the regulations in its' Handbook 9 so as to eliminate what had been a distinction between "associated" and "unassociated" charges. CRS was not advised at the time that its continued operational format of recipient charges was considered improper by AID. Not until AID audited CRS' nutrition program in Djibouti in 1982 was the issue of conforming to this government regulation first raised. Over the period of the next several years, during which time AID made no further challenge to CRS'position CRS reviewed, in house, its policy of over twenty years. Based on this investigation and in order to put to rest the "agreement to disagree" status CRS' Board of Directors decided, in the Fall of 1985, to conform to AID accounting practices. The decision was reached unilaterally by CRS and preceded any Inspector General audit findings or recommendations.

* * * * *

During the years 1984 and 1985 CRS' Fund 322 world wide income amounted to $4,551,214 and $5,650,248 respectively, against which it expended, for support of program costs to benefit over

26,000,000 recipients, $4,521,038 in 1984 and $4,181,040 in 1985. Over 90% of the noted expenditures were clearly within the categories permitted by AID Handbook 9, Regulation 11. All of the contributions retained by the counterpart in-country centers were intended to cover direct program related costs.* The audit report both states and infers that, had CRS formally sought AID approval, it would have been granted. What are therefor found are technical infractions.

As a matter of operational format, AID requires of each of its country Directors, an Annual Budget Summary ("ABS report") which sets forth an estimate of beneficiaries intended to be reached by cooperating agencies such as CRS during the course of the year and which specifically sets out total recipient contributions anticipated during that fiscal year. (Sec. 211.5 AID Handbook 9. App. C, p. C-4.) CRS provided AID, pursuant to its regulations, the information to be included in the ABS Recipient Status Reports and Commodity Status Reports indicating actual number of individuals served, actual amounts of foodstuffs disbursed and in instances where nutrition centers were funded by Outreach grants, with the mandated reports. (Attached as Exhibit "A" AID ABS FY 1985-Upper Volta and Kenya with CRS 4th Qtr. Commodity Status Report, Recipient Status Report and 1/2 year Outreach Status Report.) Thus, although CRS maintained the independent status of its operations, AID was kept entirely current on CRS' conduct of feeding programs. The allegation to the contrary is therefor false and misleading.

Likewise, the conclusion reached by the Inspector General that, while there was no agreement between AID and CRS as to application of AID regulations on recipient contributions; the actions of CRS, though in support of program activity, were sometimes "improper" and "unauthorized" is unsupported by the facts.

* * * * *

The audit report speaks in both conclusive language in the Executive Summary and in detail in the body on pages 11 through 12 of instances where a small number of recipient mothers and center officials* indicated a perceived need to pay

*The audit report hypothesizes to the sum of $11 million by roughly doubling the amount shown on CRS' books.
**Kenya 112/162,500 Burkina-Faso 20/421,000

money or collect fees in order to receive and distribute foodstuffs. Acknowledging, as the Audit Report does, that no prohibition exists against such collection and further, as the Inspector General has found, the almost impossible task of establishing a worldwide criteria of "ability to pay", it should be recognized that responsibility for establishment of a equitable and appropriate fee would rest in large measure, with country representatives. Assuming further that such measurement was established, the audit report does acknowledge that, as a matter of policy, CRS never mandated monetary payment in order to receive food.

What is indicated, is that in a limited number of countries, either host government requirement or confusion on the part of counterpart agencies produced a situation where fees were charged other than on a pay when able basis. In Burkina-Faso for instance, over 90% of the population is functionally illiterate. How easy for a targeted recipient to misunderstand the "voluntary" nature of a contribution- or how simple for a native manager of a feeding center in order to provide for payment against delivery of supplies; to ask for compensation from those he is to serve.

Private Voluntary Organizations such as CRS, by congressional intent and AID Handbook 9 regulations are required to develop food aid country programs that are focused on targeted beneficiaries so as to remove the causes that require food aid imports. PVO's are grass roots operations unlike the focus of government to government Title I food programs. On a worldwide balance, CRS programs are historically targeted to less than 5% of country populations.

Even assuming that some individuals were turned away, based on a misunderstood need to pay, it should be recognized, in any audit of feeding programs, that the necessity to develop targeted groups inhibits serving everyone who might apply. Further, in times of emergency, either the targeted geographic area or populace may expand beyond the ability of either AID or any voluntary agency to appropriately feed in its entirety.

* * * * *

References in the executive summary and subsequently in the body of the audit report as to amounts due from CRS for claims from the sale of unfit food, when compared to the $730,000,000 in food received and distributed is testimony to CRS' ability to receive, control, warehouse and distribute to intended beneficiaries, over 99% of AID's food.

* * * * *

Allegations of the establishment of a "sizeable" fund reserve of recipient contributions in Kenya while utilizing AID funds is totally misleading as the more detailed response on pages 9 to 11 hereof will explain. CRS contests the request for refund of alleged over payments. The audit report ignores the purpose of the creation of the reserve, namely to fund programs on the discontinuance of Outreach funding, an operational mandate of AID itself. On three occasions, due to lack of sufficient recipient funds or other sources of funding; CRS/Kenya Title II program have been bankrupt. Since 1979, CRS has advanced over $900,000 to move food from docks in Kenya, Madagascar, Burundi and Tanzania so as to feed the people it served.

* * * * *

The audit suggestion of a refund of $89,000 for processing of claims for inland losses is also without foundation. The procedure utilized by CRS is one of common commercial practice and infact dictated by the geographic situation. CRS contests request for repayment.

* * * * *

The commentary on internal accounting methodology and audit practices have been noted and where appropriate, will be modified. CRS operates in 70 countries around the world, in areas where access to operations is difficult and collection of data haphazard. The nature of the work and the amount of travel deters the hiring of audit staff. At present, 20% of overseas projects are audited annually.

Responses to the specific findings and recommendations of the Inspector General's audit.

FOR THE SAKE OF CLARITY, REFERENCE IS MADE TO THE CAPTIONS CONTAINED IN SAID AUDIT REPORT.

"A. Findings and Recommendations."
1."Need to define recipient's ability to pay for food."
The Inspector General's office, in the audit of Burkina-Faso and Kenya has found a limited number of instances in the two countries where individual recipients and/or distribution center managers perceived a need to pay or charge for the distribution of food. The audit does acknowledge that AID regulations permit charges and further that CRS does not have a philosophy of imposing fees. When the initial allegations and complaints regarding certain aspects of the operations of CRS were raised, CRS undertook to conduct its own survey of Title II feeding programs in the 37 countries throughout the world where it conducts the same. As the audit report indicates, CRS' own investigation revealed that in some instances fees were sought from recipients on a less than voluntary basis. The report further acknowledges that this was occasioned by host country mandates of encouragement as a means of financing program costs.

What the audit does not indicate is that the United States Government, under its agreements with CRS, underwrites the cost of ocean freight transportation, and in some instances, the cost of limited inland transportation. However, the cost of initial survey of a country, establishment of an operational base, the institution of local distribution centers accompanied by facility for expanded nutritional education and agricultural development centers, the cost of maintaining staff and records must be borne by others than the United States Government.

Recognizing this, AID Regulation 11, Section 211.5(i) specifically provides for the generation of funds from recipient contributions, and the sale of empty food containers and further permits such proceeds to be used for the payment of program costs such as transportation, storage, handling, insect and rodent control, rebagging of damaged or infested commodities and other program expenses specifically authorized by AID, including payment of indigenous and/or third country personnel employed by cooperating sponsors or recipient agencies in support of Title II programs. It is thus clear that AID not only approves of the concept of recipient contributions, in some instances it mandated such charges in recognition that neither CRS nor the United States Government could underwrite such costs.*

As has been noted earlier, CRS and AID historically failed to agree on whether AID regulations pertained to CRS' nutritional education programs and the charges related thereto. In a large number of situations, per capita fees were utilized not only for the distribution of food but were also related to the acquisition and ultimate utilization by the native populace of agricultural tools, seed and other material designed to improve the lot of the targeted area. Notwithstanding the historic lack of agreement, CRS, during the 20 years of its operation of Fund 322 programs, followed AID format and provided AID with all necessary information as to anticipated numbers to be served, fees to be charged and tonnages of foodstuffs to be distributed. (See Exhibit "A") Therefore the finding of the Inspector General that AID was not aware of the amounts or dollars involved is, it is respectfully suggested, incorrect and misleading. The audit report itself indicates this error when in a subsequent section it specifically states that CRS expended $900,000 collected from recipients in Kenya. These figures are directly abstracted from AID/Kenya's Annual Budget Summary Report, premised entirely on information supplied by CRS as the cooperating agency.

What the audit report's technical language does not indicate is the need for CRS' program representatives in a particular country to undertake a budget process and anticipate revenue to be received in order to support the conduct of the feeding program. As in any economic exercise, a per capita cost must be computed to cover the expenses of moving tons of food overland, warehousing the same, safeguarding against contamination and ultimate distribution. Only so much financial assistance can be anticipated from the sponsoring agency and the balance must be supplied by what AID itself authorized, namely recipient

---

In 1982 AID/Kenya specifically suggested to AID/W that CRS, ". . .charge recipient fees for bulk of FFW program (e.g. 80%) to cover transport."

contributions and the sale of containers. During the course of the budget preparation the Country Director thereof must recognize that a certain percentage of recipients may not be able to pay or will not pay and therefore the per capita charge must be adjusted accordingly. When the foodstuffs are moved from central warehousing locations to ultimate points of distribution, the cost of such movement must be collected. (cf Telex p. 2613122 May 82- Exhibit "B").

Catholic Relief Services, as an agency, undertook a policy to feed the poor of the world and adopted a philosophy that no individual would be denied the receipt of food for lack of the ability to pay. In some instances, as the audit has pointed out, the ultimate application of this philosophical mandate became misinterpreted and misapplied. As a matter of pure economics food cannot be moved or distributed without cost. Both CRS and AID recognized that a charge could be requested from recipients based on the ability to pay. Where the shortfall arose was the perceived need at the local distribution centers to either pay for or charge for the receipt and distribution of food.

The budget process undertaken in each specific country was premised on an understood need to consider ability to pay. The Inspector General urges that AID and CRS both attempt to achieve some worldwide formula designed to define "ability to pay". CRS heartily supports this recommendation.

2. "Need to better control program costs."
In a technical discussion as a corollary to the first part, the Inspector General notes that CRS' nutritional and feeding programs could be better coordinated with AID country directors and suggests that the totality of expenses, including those that would not normally fit within statutory provisions, be approved by AID country directors. The Inspector General infers that CRS could itself increase its financial support of the programs. Such inference is made in a vacuum without considering the totality of financial undertakings of CRS throughout the world in disaster and development programs.

3."Lack of control over the disposal of unfit food." Unfortunately, at the outset of this section of the audit report, the Inspector General infers that the amount of $544,000 in proceeds from the sale of unfit foods is allocable to the Burkina-Faso and Kenya programs. While claims for inland losses and unfit food sales on hand in December 31, 1985 amounted to $544,398, the bulk of this U.S. government fund, some $446,000, is being held in four countries. The remaining $98,000 was spread over 15 countries. A determination and settlement with AID has been made in three of these countries. CRS is still awaiting a final determination on approximately $100,000. CRS further agrees that it will seek to improve its review procedures on the disposal of unfit food and remit on a more prompt basis that portion of this money due to AID from such sale.

4."Kenya ant funds were used for unauthorized purposes" The findings of the audit indicate portions of both grants; (Outreach $823,488) (Disaster Assistance $1,013,285.) were used to fund unauthorized program activities. CRS would submit that contractually such may be the case but that all monies were expended in good faith to carry out project objectives, meet beneficiary needs and attempt to establish a reasonable financial plan to serve the longer term self help potential of the poor of Kenya. For the purposes of responding to the audit findings, each grant will be treated separately.

OUTREACH GRANT

Under date of Feb uary 25, 1982, CRS submitted to AID a project proposal for "Outreach" funds in the amount of $1,148,350. Outreach grants were considered by AID/W to be transitory grants/financial assistance to expand a Title II program, or retarget a program geographically or enhance the quality of the program. As a funding source tied to Title II objectives, the element of community self help was a future criterion. A plan for phase over of recurrent costs to a source other than

Outreach was also part of the general criteria. Recipient contribution was a recognized logical source for such funding costs. Finally, Outreach could not substitute for any present, in place, funding mechanisms. Evidencing this stated criteria is telex P. 261312Z May 82 from the Kenya AID mission (Exhibit "B") which recommends, in 1982, recipient contributions or cutbacks in feeding operations in the absence of same. Thus Outreach funding was always considered temporary and recipient PVO's such as CRS, ran the risk of accepting Outreach-increasing needed food aid and then being forced to cut back in subsequent years if a source for non-AID fiscal support was not developed.

The grant proposal of February 25th 1982 was not approved until June 29, 1983 in the reduced amount of $423,100. CRS acknowledges that this grant contained a clause that CRS would not utilize grant funds for transport and storage unless locally generated areas had not the fiscal ability to meet such costs. (Exhibit "C") However, the grant document also mandated a phase over plan through the build-up of locally generated funds. CRS accepted this grant with contradictory objectives based on the growing need in Kenya and its good working relationship with AID/W-Food for Peace office. It was "go with what we have and straighten it out later". This is also in the face of CRS/Kenya having gone bankrupt three times and CRS having to advance $62,000 to cover logistics in 1983-84 These monies came at the expense of other development initiatives- they were not free monies. As to the question of recipient fee inputs during the grant in 1984, CRS expended $305,712 and in 1985 it was $670,000, constituting over 92% of total recipient fees collected. The assertion that CRS built up a significant fund balance as December 31, 1985 of $189,861 is also presented out of context. This represents a 3 to 4 month operating balance against anticipated transport costs for 9 full months of shipping inputs still to arrive. Recipient funds in effect are revolving funds collected against deliveries and expended against new arrivals.

The clause referencing first use of recipient funds was part of the initial 9 month transition grant. The following grant was accepted as an extension to the original as a result of a suggestion from AID/W. A comparison of the grant proposals signed 6/29/83 and 4/25/85 clearly indicate different thrusts and a different approach to recipient contributions. The 1985 grant clearly was a cost sharing of outreach and recipient fees. (see Exhibit "D"). Obviously the prior clause of first use of recipient funds was no longer valid.

In conclusion, despite bankruptcies, CRS through its own inputs and that of the recipients, as well as Outreach, kept a food program going under extremely adverse condition. Recipient funds were not "banked" in lieu of Outreach, but partnered to achieve the objectives CRS and AID desired; the feeding of the poor in Kenya. CRS therefore requests the withdrawal of the recommendation that CRS return $145,208.

With respect to the reimbursement of $7,802.73 for expenses incurred prior to the audit period as well as $11,656.03 for storage facilities at ineligible centers CRS would request further details that it might respond accordingly.

OFDA GRANT- CRS received from AID's Office of Foreign Disaster Assistance a grant in the amount of $1,013,285 to transport 6,521 metric tons of food under drought/emergency conditions throughout Kenya. The audit recommends CRS refund to OFDA $175,560 for payment of inappropriate transport costs.

CRS again contests the concept that there were any inappropriate transport costs. In the first instance, the audit indicates CRS "merely designated" 88 existing centers in the drought areas as "OFDA Centers". CRS did not "merely designate centers." The drought prone area covered the existing CRS oper tional food distribution network which had already been expanded during the year of negotiation with AID. The specific areas affected by the drought and the centers to be assisted through OFDA funding were detailed in CRS' grant proposal section VI, pages 20 and 21. (Exhibit"E") These centers were selected based on proximity to warehouses and overall transport network as well as need as determined by the CRS Growth Surveillance System.("GSS")

Basically the GSS is an established method of charting the weight and growth of children enrolled at CRS feeding centers. In drought or other food threatening situations the charts will reflect a decline in the normal child growth patterns. This indicates a food shortage and an "at risk" situation. Thus, the centers were selected on overall need and CRS'ability and capacity to deliver and distribute. The grant allowed the selection of centers to CRS based on its proposal and track record.

As to rations, they were not just doubled, but in fact tripled, from 10 Kgs to 28 Kgs. This was again a professional judgement based on the findings and recommendations of staff nutritionists. It is also part of the CRS/Africa strategy on nutrition intervention. This nutrition intervention plan coupled with economic loss of income to recipients led to a clear acknowledgement and intention that all commodity transport costs for Title II program activities situated in drought stricken areas would be eligible for OFDA support. This is articulated in CRS' grant proposal to OFDA on pages 24 and 25.(Exhibit "F")

The grant, awarded on the basis of CRS'proposal, required the movement of 6,521 metric tons, did not specify center areas (only that operations be in drought affected areas and focus on children) and did not prohibit recipient contributions where possible. CRS submits it complied with all of the above and request the deletion of the reimbursement recommendation of $175,560. The fact CRS generated $228,483 during the grant period does not mean it retained these monies. They were as the audit indicates, programmed to support regular CRS food activities which all centers reverted to after the emergency ended in July of 1985.

5."<u>CRS/Burkina Faso Lacked Control of Food Inventory</u>"
The Inspector General alleges, "Records were not available to account for about $2.6 million of food... As a result, CRS/Burkina Faso could not properly account for the quantity of food delivered."

It is the position of CRS' director in Burkina that this was not a loss of actual commodity but a variance in inventory records due to a change in the accounting system. This is supported through the monthly commodity reports submitted to AID in Burkina Faso. These commodity reports reflect opening inventory balances, new arrivals, distributions, damages and closing balances. This is a running report covering not only the years in question but all years since AID required the report. The change at the warehouse level was to bring those records into line with the controlled accounting at the CRS office in Burkina.

As to the missing ledger, the program staff offered to reconstruct the records from original source documents which were maintained on a daily basis, but the auditors declined this offer. The ledger has subsequently been located and is available with the original source documents, for AID review.

During the audit review in Burkina, the CRS Program Director acknowledged that the transport system was vulnerable to abuses. The Director shared with the auditors an internal review already conducted by CRS on this issue. The Director further indicated CRS had hired a consultant to identify the most feasible and sound transport arrangement as well as preparing specific contracts to assure its implementation. However, the CRS Director pointed out that, contrary to the auditors findings, CRS/Ouagadougou does have well defined delineation of warehouse duties and responsibilities. Under the CRS/Ouagadougou system, several different people handle the responsibilities which the audit report noted as being held by one employee. Rates are fixed and distances from warehouse to distribution centers have been chartered. CRS believes that these audit findings are not valid.

6."<u>CRS/Burkina Faso Improperly Retained Claim Proceeds</u>"
The auditors have recommended the return of $89,000 as funds improperly retained as administrative allowance on each claim filed covering inland losses or damages.

Appendix C - 211.9(g)(iii)(e)(2) of AID Handbook 9 states cooperating sponsors may retain $100 of any amount collected on "a claim." This is a recognition of costs incurred in calculating, processing and the pursuit of claims settlement. CRS/Burkina as the cooperating sponsor would thus be eligible for the $100 per claim.

What is in question, is the definition of "claim." It is the contention of the auditors that a "claim" represents the totality of a shipment. It is the contention of CRS/Burkina that, in line with the spirit of the $100 allowance, a "claim" represents any segment of a delivery such as a single truck load where the delivery documentation, calculation of loss and process of necessary paper work exists. In a country such as Burkina, which is land locked, deliveries unloaded by ship at Abidjan Ivory Coast are on forwarded to Burkina in broken down lots by various truckers and rail. In effect the "total" shipment of the ocean carrier is broken down into many "individual" shipments. Since the over the road carriers may well represent different companies, a universal claim is impossible. Claims must be filed based on the declared loss or damage noted on the way bills at arrival and verified by a survey report issued in Burkina.

CRS/Burkina representing a land locked country has a forwarding agent (SAG) at the ocean port of Abidjan. The Inspector General interviewed SAG on the commercial practices of claims and was informed CRS presents a single claim. It is on this that the request to refund the $89,000 is based. What was not taken into consideration or satisfactorily explained to the auditor was that the "one" claim presented to SAG by CRS is a global recapitulation of each documented indiviudal loss. By arrangement with SAG, CRS files this global recapitulation and attaches to it a breakdown by carrier, wagon load, rail car etc. of individual losses supported by waybills and surveys. Each loss is calculated in a proper claims format. SAG will on this basis pay to CRS 100% of all losses claimed. It, in turn, transmits the full package to its underwriters who pursue settlement with individual carriers on the basis of the CRS individual claims and supporting documentation. This is an extremely beneficial process to AID as it receives full reimbursement for inland losses, less $100 a claim.

As to the matter of late remittance to AID/Burkina, this was a result of an accepted practice between CRS/Burkina and AID/Burkina. Claim settlements are received by CRS/Burkina almost weekly in various amounts. Rather than process paper work on claims as settlement was received, the practice was to submit all settlements on a quarterly basis. This practice was in place for a minimum of two years prior to the audit. Further, a research of applicable guidelines does not reveal any reference to a specific time frame for proceeds submission. CRS did not gain from this quarterly practice (save in administration) as the funds were maintained in non-interest bearing accounts as mandated by AID. AS of August all due monies have now been remitted to AID/Burkina.

It should also be noted that administrative claim allowances were, in the main, channeled back into program support costs linked to Title II. Given the lack of definition of "claim", spirit of the intent, use of funds and benefit to AID, CRS requests that this recommendation be withdrawn.

* * * * * *

"Compliance and Interest Control"
Internal Control
a. Headquarters
(1) Accounting
The audit recommends a more detailed description of what should be included in CRS's chart of accounts and cites as an example the CRS account which allegedly bears the title "Assistance for Socio-Economic Development Programs." The auditor's contention that transactions were recorded in this account because the field reporting was not detailed enough to identify line item classifications. Actually, this is the generic title for the CRS expense account #9700, which is entitled "Socio-Economic, human development, and general welfare projects and programs" and is listed as such in the CRS annual financial report which is shared with AID. This account is a consolidation of subsidiary accounts coveringsuch items as the cost of construction, supervision, evaluations, training, seminars, etc. relating to development projects. It also includes project assistances in the form of grants. PVOs carrying on numerous projects

encompassing a wide variety of expense categories reach the point where they must limit the number of line items in their consolidated financial reports. However, the project financial reports provide the detailed line items derived from these program's project ledgers.

The audit also notes the necessity for follow-up by the Accounting Department of items where the coding is in doubt or where differences occur. The CRS/NY Accounting Department is cognizant of this problem and it is their priority effort to resolve all differences. The time-consuming correspondence and the distances involved sometimes preclude a quick determination.

CRS will review its account description list and, if warranted, include a revised list in the Accounting Manual not under review.

(2) Internal Audit

The system for follow-up on internal audit findings and recommendations has been reviewed with management to insure a more timely response to recommendations.

The audit staff has been augmented. The larger staff will enable CRS to spend enough time to cover all aspects of the procedures called for in the CRS internal audit manual.

b. Field
(1) CRS/Kenya's internal controls were weak in several areas.

The CRS field accounting systems are presently under review with the intent of installing computerized systems where feasible. This should provide more uniformity and facilitate the keeping of more comprehensive records on financial accounting and commodity control.

List of Exhibits Attached to CRS Response

	EXHIBIT
Annual Budget Submission - FY1985 Upper Volta (Burkina Faso) and Kenya	A
Telegrams-Nairobi 12590, May 26, 1982, Sections 3 and 4	B
Page 4 of Outreach Grant	C
Attachment No. 3 to Project Implementation Order/Technical Services (PIO/T), CRS/Kenya Cost Elements January 1 to December 31, 1985	D
Lists of Affected Areas and Centers or Areas to be Considered For Increased Food Ration	E
Pages 24 and 25, CRS Grant Proposal to OFDA.	F

Note: These documents were not included in final report because they did not provide new information.

List of Recommendations

Page

Recommendation No. 1 6

We recommend that Catholic Relief Services in cooperation with AID develop specific guidance to its country program directors on when and how much should be assessed to recipients, i.e., define in measurable terms recipients' "ability to pay." The guidance should include provisions to assure that otherwise eligible recipients are not denied food solely because of inability to pay and require Catholic Relief Services country program directors and counterpart agencies operating distribution centers to periodically certify that the guidelines are followed.

Recommendation No. 2 11

We recommend that Catholic Relief Services:

a. prescribe procedures to obtain advance AID approval for program expenditures not specifically authorized by Regulation 11,

b. periodically report to AID on the receipt and disbursement of revenues derived from the operation of the Title II program; and

c. develop procedures to assure that distribution centers collect and disburse recipient contributions and proceeds from the sale of containers in accordance with the regulations.

Recommendation No. 3 16

We recommend that Catholic Relief Services:

a. provide an accounting report on sales proceeds of unfit food and expenses actually incurred, and deposit the balance due with the U.S. Treasury; and

b. prescribe procedures to dispose of unfit food in accordance with Regulation 11.

List of Recommendations - Continued

List of Recommendations - Continued

Page

Recommendation No. 7 25

We recommend that Catholic Relief Services:

a. issue instructions to all country directors administering P.L. 480, Title II programs on the proper retention of claim proceeds for administrative costs; and

b. poll all country directors to identify claim proceeds improperly retained and arrange for prompt deposits of these funds with the U.S. Government.

APPENDIX C

CATHOLIC RELIEF SERVICES

Report Distribution

	No. of Copies
Catholic Relief Services	5
Assistant Administrator, Bureau for Food for Peace and Voluntary Assistance (AA/FVA)	5
FVA/FFP	5
FVA/PPE	1
Assistant to the Administrator for Management (AA/M)	5
Assistant Administrator, Bureau for Africa (AA/AFR)	1
AFR/SWA	2
AFR/EA	2
AFR/CONT	1
Assistant Administrator, Bureau for Asia and Near East (AA/ANE)	2
ANE/EMS	1
Assistant Administrator, Bureau for Latin America and the Caribbean (AA/LAC)	2
LAC/DP/PO	1
Center of Development Information and Evaluation, PPC/CDIE	3
Bureau for External Affairs (AA/XA)	2
Office of Press Relations (XA/PR)	1
Office of Legislaative Affairs (LEG)	1
Office of the General Counsel (GC)	1
Office of Financial Management (M/FM/ASD)	2
Office of the Inspector General (IG)	1
RIG/A/Nairobi	1
RIG/A/Manila	1
RIG/A/Cairo	1
RIG/A/Dakar	1
RIG/A/Tegucigalpa	1
RIG/A/Singapore	1
IG/PPO	2
DIG/II	1
IG/LC	1
IG/EMS/C&R	16