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AUDIT OF THE PUBLIC LAW 480, TITLE II  
PROGRAM WITH CATHOLIC RELIEF  
SERVICES IN ECUADOR

Audit Report No. 1-518-87-06-N  
March 9, 1987

# AGENCY FOR INTERNATIONAL DEVELOPMENT

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March 9, 1987

## MEMORANDUM

TO : D/USAID/Ecuador, Frank Almaguer  
FROM : RIG/A/T, *Coinage N. Gothard*  
Coinage N. Gothard, Jr.  
SUBJECT: Audit Report No. 1-518-87-06-N, "Audit of the Public Law 480,  
Title II Program with Catholic Relief Services in Ecuador"

This report presents the results of a non-Federal audit of the Public Law 480, Title II Program in Ecuador operated by Catholic Relief Services (CRS) and its local counterpart organization, the National Secretariat for Social Ministries (SENAPS). The certified public accounting firm of Price Waterhouse in Ecuador prepared the report which is dated February 26, 1987.

The purpose of this audit was to report on (1) the fairness of the commodity statement for the year ended September 30, 1986, (2) the system of internal accounting controls established for administering and supervising the project and (3) compliance by CRS and SENAPS with the laws, regulations and agreement provisions to which they are subject in relation to the program.

Price Waterhouse disclaimed an opinion on the commodity statement due to restrictions in the scope of the audit caused by inadequate accounting records and internal controls and because they did not observe the taking of physical inventories. Their study and evaluation of the system of internal controls disclosed that it was not functioning properly because of a lack of adequate permanent supervision over the program and the absence of adequate accounting controls for the preparation of records and documentation of transactions. These weaknesses result in more than a relatively low risk that errors or irregularities in amounts that would be material in relation to the commodity statement may occur and not be detected within a timely period. They determined that CRS and SENAPS were not in compliance with certain laws, regulations and agreement terms applicable to the PL 480, Title II Program. They also determined that the weaknesses in internal controls result in more than a relatively low risk that transactions not tested were not in compliance with certain laws, regulations and agreement terms.

The Price Waterhouse report contains seven recommendations concerning CRS/SENAPS system of internal controls: three recommendations to improve the accounting system, three recommendations to improve the storage and

handling system and one recommendation to improve the supervision of the program. The report also contains nine recommendations to achieve compliance with laws, regulations and agreement terms.

We believe that the recommendations contained in this report will significantly improve CRS/SENAPS's administrative and compliance weaknesses. As a result, the following recommendation will be included in the OIG's audit recommendation follow-up system.

Recommendation No. 1

We recommend that USAID/Ecuador obtain from Catholic Relief Services in Ecuador evidence to demonstrate that it has implemented the recommendations in the Price Waterhouse audit report dated February 26, 1987.

Please advise this office within thirty days of the actions planned or taken to implement this recommendation.

AUDIT OF THE PL 480 TITLE II  
PROGRAM - ECUADOR



AUDIT OF THE PL 480 TITLE II

PROGRAM - ECUADOR

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*Price Waterhouse*



February 26, 1987

Mr. Coinage N. Gothard  
Regional Inspector General for Audit  
U.S. Agency for International Development  
Tegucigalpa, Honduras, C.A.

Dear Mr. Gothard:

This report presents the results of our audit of the PL 480, Title II Program - Ecuador.

#### BACKGROUND

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In accordance with the provisions of Public Law 480, Title II, the Government of Ecuador and the United States Agency for International Development (USAID) entered into an agreement through which the United States provides surplus food for distribution to needy people in Ecuador. The cooperating sponsor for this project, responsible under the terms of an agreement with USAID for the proper use of commodities, is the Catholic Relief Services (CRS) and its local counterpart the "Secretariado Nacional de Pastoral Social" (SENAPS).

In 1965 Catholic Relief Services (CRS) signed a working agreement with Caritas of Ecuador, then an autonomous agency of the Ecuadorian Catholic Church, to implement and manage jointly the PL 480, Title II Food Program in Ecuador. CRS and Caritas had a staff of some 20 provincial/Diocesan and regional supervisors, administering a program focused on mother child health, institutional feeding of orphaned children and other welfare feeding. In 1966 CRS signed a basic country agreement with the Government of Ecuador allowing CRS to operate in the country and granting them specific rights and privileges.

CRS and Caritas signed a specific working agreement with the Ecuadorian Ministry of Health in 1968 for the implementation of health and welfare programs involving



distribution of food, medicines and used clothing. Around 1969 Caritas was dissolved and replaced by the "Secretariado Nacional de Pastoral Social" (SENAPS), which became a direct dependent of the Ecuadorian Episcopal Conference. However, operation of the PL 480, Title II Food Program was not affected by this significant change in CRS's counterpart institution.

In 1973 the Episcopal Conference signed an agreement with the Ministry of Health to carry out a health and welfare program, but in 1979 a new broader agreement was signed by the Conference with the Supreme Council of Government, replacing the 1973 agreement. The new basic agreement specifies the cooperative participation of the signees in development programs and projects, including a program to generate donations from external sources and carry out distributions of food, clothing, medicines and other resources to needy people in Ecuador.

The PL 480, Title II Program in Ecuador has maintained its focus on mother child health programs, institutional feeding of young children and school feeding programs in joint public/mission schools in the Amazon region. In the late 1970's, increased emphasis was given to food for work projects. By the 1980's discussions were initiated regarding the possible phase-out of the PL 480, Title II Food Program. In 1985 CRS presented to USAID an operational plan to phase-out the program by fiscal year 1989, which would include efforts to design development projects to substitute for the food distribution.

Since September, 1986, CRS has maintained a resident U. S. citizen as a representative director in Ecuador. The representative director of CRS manages the PL 480, Title II Program in conjunction with the national director of the local counterpart agency, SENAPS. The CRS and SENAPS directors have designated administrative responsibility for the program to a supervisor of physical resources in SENAPS who is assisted by two supervisors. The Diocesan directors of Pastoral Social in each province or Diocese are responsible for program implementation at that level and they report to SENAPS national headquarters. SENAPS in turn prepares reports for review and approval by CRS.

During the fiscal year ended September 30, 1986, 3,065,411 pounds of commodities were distributed to local recipients in thirteen different provinces throughout the country. SENAPS utilized fifteen regional warehouses from where the commodities were shipped to approximately 210 distribution centers for distribution to approximately 25,000 recipients.



The administration of this program is governed by the policies, guidelines and procedures established by USAID as part of its function of monitoring, advising and assisting the cooperating sponsors in their programming and administration of approved programs.

#### AUDIT OBJECTIVES AND SCOPE

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The objectives of our audit were (a) to express an opinion on the fairness of the commodity statement for the year ended September 30, 1986; (b) to report on compliance by the cooperating sponsor and its local counterpart with the laws, regulations and agreement provisions to which they are subject in relation to this program, and; (c) to report on the system of internal accounting control established for administering and supervising this project. Our examination was made in accordance with generally accepted auditing standards and the "Standards for Audit of Governmental Organizations, Programs, Activities and Functions" (1981 revision).

The scope of the work consisted of:

1. An examination of the commodity statement applicable to the PL 480, Title II Program in Ecuador for the year ended September 30, 1986.
2. A review and evaluation of the system of internal accounting controls established by the cooperating sponsor to determine the adequacy of accounting for the arrival, storage, shipment and distribution of donated commodities; proper warehouse facilities for storage and handling; and the adequacy of supervision.
3. A review of compliance by the cooperating sponsor and its local counterpart with the laws, regulations and agreement provisions to which they are subject in connection with this program. This review included testing of the procedures used in connection with:
  - A. The preparation and submission of required reports.
  - B. The use of commodities.
  - C. Proper distribution to eligible recipients.
  - D. Adequate publicity as an AID program.



- E. The use of proceeds from sales of containers.
  - F. The eligibility of recipients.
  - G. Prompt reporting and proper disposal of commodities unfit for human consumption.
  - H. Prompt reporting of all losses and misuses of commodities.
4. Visits to five regional warehouses (Quito, Guayaquil, Napo, Portoviejo and Zamora) and selected recipients and beneficiaries of the PL 480, Title II Program.

RESULTS OF AUDIT  
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1. Commodity Statement  
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We have disclaimed an opinion on the commodity statement for the year ended September 30, 1986 (summarized below) due to restrictions in the scope of our examination caused by our not being able to observe the taking of physical inventories of commodities, inadequate accounting records and internal controls and our not being able to satisfy ourselves by other alternative procedures as to the quantities of commodities reported.

	Pounds
	-----
Opening balance	1,560,980
Commodities	
Received during the year	2,086,730
Distributed and lost during the year	(3,073,845) ( 987,115)
	-----
Balance at end of year	573,865
	=====

2. Internal Controls  
-----

Our study and evaluation of the internal control system established by the cooperating sponsor and its local counterpart for the administration and supervision of the program revealed certain conditions as described in our report which, we believe result in more than a relatively low risk that errors or irregularities in amounts that



would be material in relation to the commodity statement may occur and not be detected within a timely period. Our evaluation revealed among others:

- A. A lack of adequate permanent supervision over the program.
- B. The absence of adequate accounting controls over the preparation of records and documentation of transactions.
3. Compliance with Applicable Agreement Terms.  
-----

Our examination revealed that the cooperating sponsor and its local counterpart were not in compliance with certain agreement terms applicable to the PL 480, Title II Program. Instances of non-compliance that came to our attention were related to:

- A. The preparation and submission of required reports.
- B. The use of commodities.
- C. Distribution of commodities.
- D. Adequate publicity as an AID program.
- E. The eligibility of recipients.
- F. Adequate disposal of commodities unfit for human consumption.
- G. Prompt reporting of all losses of commodities.

*Price Waterhouse*

**Price Waterhouse**



AUDIT OF THE PL 480 TITLE II  
PROGRAM - ECUADOR  
REPORT ON COMMODITY STATEMENT

AUDITOR'S OPINION

We have examined the accompanying commodity statement applicable to the PL 480, Title II Program in Ecuador administered by the Catholic Relief Services and its local counterpart (SENAPS) for the year ended September 30, 1986. Except as stated in the following paragraph, our examination was made in accordance with generally accepted auditing standards and the "Standards for Audit of Governmental Organizations, Programs, Activities and Functions" (1981 revision) and, accordingly, included such tests of the accounting records and such other auditing procedures as we considered necessary in the circumstances.

We did not observe the taking of the physical inventories of commodities as of September 30, 1986 (stated at 573,865 pounds) and September 30, 1985 (stated at 1,560,980 pounds), since those dates were prior to the time we were initially engaged as auditors for the program. As stated in our report on internal controls, we found the system of internal accounting controls and the accounting records inadequate for the purpose of providing appropriate control over the storage and distribution of commodities. Since we did not observe the taking of physical inventories and we were unable to satisfy ourselves as to the inventory amounts by other adequate alternative procedures due to unsatisfactory records, we were unable to satisfy ourselves as to the quantities of commodities referred to above or as to the quantities of commodities distributed and lost during the year (stated at 3,073,845 pounds).

Since we were unable to apply adequate alternative procedures regarding the quantities of commodities, as noted in the preceding paragraph, the scope of our work was not sufficient to enable us to express, and we do not express an opinion on the commodity statement.



AUDIT OF THE PL 480 TITLE II  
PROGRAM - ECUADOR  
REPORT ON COMMODITY STATEMENT  
AUDITOR'S OPINION

Related to the circumstances described above, our examination disclosed the following departures in the preparation of the commodity statement from the basis of preparation as stated in the note to that statement:

1. There was an overstatement of the balance of commodities at September 30, 1986 and an understatement of distributions for the year of approximately 109,000 and 86,000 pounds, respectively, arising from the utilization of erroneous conversion rates from units to pounds in reporting certain distributions and the utilization of gross rather than net weights in reporting several receipts during the year.
2. A shortage of approximately 40,000 pounds of commodities dispatched to one of the entity's regional warehouses was reported as distributions for the year.
3. Distributions of approximately 30,000 pounds from one of the entity's regional warehouses were not reported.
4. Distributions from three of the warehouses were reported on the basis of estimated quantities, which exceeded the actual quantities subsequently reported by 91,000 pounds.

*Price Waterhouse*

December 4, 1986

PL 480 - TITLE II PROGRAM IN ECUADOR

COMMODITY STATEMENT  
 YEAR ENDED SEPTEMBER 30, 1986  
 (Expressed in pounds)

	Rice	Dried peas	Rolled oats	Vegetable oil	Milk	Total
Balance at beginning of year	419,490	298,700	428,595	142,237	271,958	1,560,980
Commodities received during the year	666,658	390,066	517,200	226,913	285,893	2,086,730
	1,086,148	688,766	945,795	369,150	557,851	3,647,710
Distribution						
Maternal and child health	238,025	67,510	316,750	67,723	50,300	740,308
School feeding	325,053	206,563	220,050	113,508	240,650	1,105,824
Other child feed- ing	239,370	192,910	195,550	97,249	215,500	940,579
Food for work	112,499	70,974	69,900	25,327	-	278,700
	914,947	537,957	802,250	303,807	506,450	3,065,411
Losses	1,760	880	2,800	2,194	800	8,434
Balance at end of year	169,441	149,929	140,745	63,149	50,601	573,865

NOTE - BASIS OF PREPARATION

Except as indicated below, the balances at the beginning and end of year represent the quantities of commodities available for distribution under the PL 480, Title II Program in Ecuador stored as of those dates at fifteen warehouses throughout the country. The balance of commodities on hand at the beginning of the year includes approximately 726,000 pounds of commodities which were in transit from the port of entry to the regional warehouses as of that date. Warehouses are located at the cities of: Quito, Guayaquil, Ibarra, Zamora, Sucumbios, Méndez, Aguarico, Latacunga, Loja, Portoviejo, Esmeraldas, Ambato, Napo, Puyo and Cuenca.

Commodities received show the quantities received at, and shipped from, the port of entry to the regional warehouses during the fiscal year. Distributions represent the quantities of commodities shipped during the fiscal year from the



regional warehouses to approximately 210 distribution centers for delivery to eligible recipients.

Commodities unfit for human consumption are disposed of through sale, if appropriate, or destruction and reported as losses for the year.



AUDIT OF THE PL 480 TITLE II  
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REPORT ON COMMODITY STATEMENT  
MANAGEMENT COMMENTS

In their written comments dated February 13, 1987, the cooperating sponsor requested that, in accordance with the objectives of the audit, an opinion be provided on the commodity statement instead of the disclaimer of opinion stated above.

The entire text of management's written response is included in appendix I to this report.

Auditor's Response  
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Our reasons for disclaiming an opinion on the commodity statement are stated in our report and are strictly in compliance with generally accepted auditing standards and the "Standards for Audit of Governmental Organizations, Programs, Activities and Functions" (1981 revision).



*Price Waterhouse*



AUDIT OF THE PL 480 TITLE II

PROGRAM - ECUADOR

REPORT ON INTERNAL ACCOUNTING CONTROLS

AUDITOR'S OPINION

We have performed a study and evaluation of the system of internal accounting control established by the Catholic Relief Services and its local counterpart (SENAPS) for the administration of this program, which was in effect for the year ended September 30, 1986. Our study included the evaluation of procedures used to account for the arrival, storage, shipment, and distribution of donated commodities; warehouse facilities for storage and handling; and supervision over the program. Our study and evaluation was made in accordance with generally accepted auditing standards and the "Standards for Audit of Governmental Organizations, Programs, Activities and Functions" (1981 revision).

The Catholic Relief Services and its local counterpart (SENAPS) are responsible for establishing and maintaining a system of internal accounting control for this program. In fulfilling this responsibility, estimates and judgments by the directors are required to assess the expected benefits and related costs of control procedures. The objectives of a system are to provide reasonable, but not absolute, assurance that commodities are safeguarded against loss from unauthorized use or disposition, and that transactions are executed in accordance with the authorizations granted and are recorded properly to permit the preparation of commodity statements.

Because of inherent limitations in any system of internal accounting control, errors or irregularities may nevertheless occur and not be detected. Also, projection of any evaluation of the system to future periods is subject to the risk that procedures may become inadequate because of changes in conditions or that the degree of compliance with the procedures may deteriorate.

Our study and evaluation disclosed the following conditions described under points 1, 2, and 4 through 7 of this report which taken as a whole, we believe, result in more than a relatively low risk that errors or irregularities in amounts that would be material in relation to



the commodity statement may occur and not be detected within a timely period. These conditions were considered in determining the nature, timing and extent of the audit tests applied in our examination of the commodity statement for the year ended September 30, 1986. It should be noted that we did not consider it necessary to expand the scope of our work to include physical inspections and execution of on-site audit procedures at regional warehouses other than those visited in connection with our examination of the commodity statement. Such an expansion would not have supplied us with audit evidence that would have altered our conclusions stated above.

*Price Waterhouse*

December 4, 1986

AUDIT OF THE PL 480 TITLE II  
PROGRAM - ECUADOR  
REPORT ON INTERNAL ACCOUNTING CONTROLS

ACCOUNTING SYSTEM

1. Records and Documentation of Transactions  
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Condition:

Records maintained by the cooperating sponsor did not accurately reflect all transactions pertaining to receipt, storage and distribution of commodities. Conditions observed were the following:

- A. There were differences between the quantities of commodities received, stored and distributed, as reported by the regional warehouses, and the quantities recorded by central accounting.
- B. Transactions were recorded in incorrect accounting periods.
- C. Distributions from the regional warehouses in the cities of Sucumbíos, Zamora, Loja and Méndez were recorded on an estimated rather than on an actual basis.
- D. There was a lack of perpetual commodity records at all of the regional warehouses except for Quito and Guayaquil.

Criteria:

In accordance with AID Regulation 11.211.10 (a) the cooperating sponsor shall maintain records and documents in a manner which will accurately reflect all transactions pertaining to the receipt, storage, distribution and inspection of commodities.

Cause:

- A. Commodity records maintained at the regional warehouses were not reconciled to the records maintained by central accounting. Reports submitted by the warehouses were not reviewed for propriety and



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REPORT ON INTERNAL ACCOUNTING CONTROLS

mathematical accuracy prior to being processed by accounting.

- B. Documentation of transactions by the regional warehouses were not subject to strict numerical sequence or other effective control to ensure they were allocated to the appropriate accounting periods.
- C. The cooperating sponsor did not enforce the preparation and submission of reports due from the regional warehouse in the city of Sucumbios. Reports due from the regional warehouses at Zamora, Loja and Méndez were submitted after substantial delay, which resulted in the necessity for estimating the volume of transactions by SENAPS for the purpose of reporting to USAID.
- D. The cooperating sponsor had not taken appropriate steps to implement requirements for perpetual commodity records.

Effect:

- A. The lack of a reconciliation between the accounting records maintained at the regional warehouses and those maintained by central accounting precluded the cooperating sponsor from identifying, investigating and correcting the following material errors:

There were distortions in the balance of commodities on hand at year-end and of distributions made during the year of 109,000 and 86,000 pounds, respectively. This was caused by the utilization of incorrect conversion rates (from units to pounds) in recording distributions and the improper utilization of gross rather than net weights in calculating receipts during the year.

A shortage of 40,000 pounds of rolled oats dispatched to the warehouse at Portoviejo was reported as distributions for the year.

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REPORT ON INTERNAL ACCOUNTING CONTROLS

- . There were various differences between central accounting's records and the regional warehouses' records, principally stemming from mathematical and other errors in the preparation of reports submitted by the regional warehouses. These differences amounted to a total of 194,862 pounds at year-end and 20,599 pounds at the beginning of year. The differences were as follows (all figures expressed in pounds):

	Milk	Oil	Oats	Rice	Peas	Total
At beginning of year	9,258	(5,644)	63,395	(14,610)	(31,800)	20,599
At year-end	(24,950)	(7,183)	(67,566)	(96,272)	1,109	(194,862)

Figures in brackets indicate that warehouse quantities exceeded those reported on the commodity statement.

- B. The balances of commodities on hand at September 30, 1986 and the quantities distributed during the year were distorted by approximately 30,000 pounds as a result of omissions in the recording of distributions from the warehouse at Esmeraldas during the last quarter of the year. Reports submitted to USAID during the year were also affected by several significant cut-off errors.
- C. Certain quantities of commodities on hand at September 30, 1986 and distributed during the year were reported on the commodity statement on an estimated basis. This practice resulted in differences between actual and reported quantities of commodities on hand at year-end and distributed during the year of approximately 91,000 pounds at the warehouses in Loja, Zamora and Méndez. The possible differences resulting from this practice at the warehouse in Sucumbios has not been established by the cooperating sponsor.
- D. Only the warehouses at Quito and Guayaquil maintained perpetual commodity records.

**Recommendation:**

- A. USAID/Ecuador should require CRS/SENAPS to improve control over the accounting and reporting of transactions by the regional warehouses as follows:



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- . Require reconciliations on at least a monthly basis between the commodity records maintained at the regional warehouses and those maintained by central accounting.
  - . Review and verify on a regular basis the utilization of proper conversion rates at the regional warehouses and by central accounting.
  - . Require all reports submitted by the regional warehouses to be reviewed and approved by a qualified accounting official, prior to being processed by accounting. Document in writing the results of this review and approval.
  - . Thoroughly investigate and document all differences noted during the execution of the steps recommended above.
- B. USAID/Ecuador should require CRS/SENAPS to develop and implement adequate control procedures over all accounting documentation to ensure that transactions are recorded and allocated to the correct accounting periods.
- C. USAID/Ecuador should require CRS/SENAPS to enforce preparation and submission on a timely basis of reports due from the warehouses at the cities of Sucumbios, Zamora, Loja and Méndez. Consider possible penalties in the event of continuing non-compliance.
- D. USAID/Ecuador should require CRS/SENAPS to establish a requirement for the utilization of perpetual commodity records at all the warehouses.

2. Documentation in Support of Eligibility Conditions  
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Condition:

The cooperating sponsor did not maintain on file adequate and complete documentation supporting the fulfillment of required eligibility conditions by all of the distribution centers. This was observed at the five



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REPORT ON INTERNAL ACCOUNTING CONTROLS

regional warehouses visited in connection with our examination.

Criteria:

An approved record documenting information reviewed to determine fulfillment of eligibility conditions for each distribution center should be prepared prior to their designation as eligible recipients. This record should be retained on file for subsequent internal and external review purposes.

Cause:

No formal instructions had been issued to the regional warehouses concerning the manner of documenting the selection of distribution centers as eligible recipients.

Effect:

There was a possibility that centers designated as eligible recipients had not met all the required conditions. Furthermore, the effective subsequent review of decisions adopted by the sponsor in selecting distribution centers and the allocation of responsibilities in the case of default was precluded.

Recommendation:

USAID/Ecuador should require CRS/SENAPS to develop and implement formal instructions for the compilation and approval of data required to evaluate the eligibility of distribution centers and for the documentation and filing of this information.

3. Control Over Contributions in Cash Received From  
-----  
Recipients  
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Condition:

The cooperating sponsor had not established control procedures over funds contributed by recipients, to the



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PROGRAM - ECUADOR

REPORT ON INTERNAL ACCOUNTING CONTROLS

regional warehouses for the payment of expenses associated with the execution of the program. These contributions were for various amounts and were administered by the regional warehouses.

Criteria:

The cooperating sponsor as the entity ultimately responsible for the administration of the program should maintain close and constant supervision over the collection and utilization of funds received in connection with the program to ensure that funds from these sources are used for payment of program costs as required by AID Regulation 11.211.5 (i).

Cause:

The cooperating sponsor had not clearly established its responsibility over the receipt and utilization of such funds and, consequently, no formal instructions had been issued concerning:

- A. The documentation, approval and review of collections and payments of such funds.
- B. Proper and periodic reporting of such transactions to SENAPS.
- C. The accounting controls required to ensure that such funds were used only for their intended purposes.

Effect:

Funds contributed to the regional warehouses in connection with the execution of the program could be improperly used.

Recommendation:

USAID/Ecuador should require CRS/SENAPS to develop and implement an accounting system establishing control over these funds and ensuring that such funds are used only for intended purposes.



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REPORT ON INTERNAL ACCOUNTING CONTROLS

STORAGE AND HANDLING SYSTEM

4. Control Over Receipts of Commodities at Regional Ware-  
-----  
houses.  
-----

Condition:

Procedures for the physical verification of the quantities of commodities received at the regional warehouses and for the reporting of differences to the cooperating sponsor were not formally established.

Criteria:

Adequate procedures should be followed at all locations to verify the accuracy of quantities received and to report possible differences to the cooperating sponsor and to USAID as required by AID Regulations 11.211.10 (a).

Cause:

The cooperating sponsor had not issued formal instructions concerning the procedures to be followed.

Effect:

Possible differences between the quantities stated on the shipping reports and those actually received at the warehouses may not be reported.

Recommendation:

USAID/Ecuador should require CRS/SENAPS to develop formal instructions establishing procedures to be followed at all locations for verifying the quantities of commodities received and for documenting possible differences for immediate reporting to the cooperating sponsor.



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REPORT ON INTERNAL ACCOUNTING CONTROLS

5. Documentation of Periodic Physical Inventories  
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Condition:

None of the five regional warehouses visited (Quito, Guayaquil, Napo, Portoviejo and Zamora) maintained adequate documentation on file supporting the results of periodic physical inventories of commodities.

Criteria:

Adequate documentation should be prepared and retained supporting the results of all physical inventories of commodities as required by AID Regulation 11.211.10 (b).

Cause:

The cooperating sponsor had not established formal instructions concerning the documentation of periodic physical inventories.

Effect:

Internal or external reviewers were precluded from verifying that effective physical counts had been made throughout the year and that differences, if any, had been properly accounted for.

Recommendation:

USAID/Ecuador should require CRS/SENAPS to issue formal instructions to all regional warehouses establishing procedures for documenting periodic physical inventories and reporting differences, if any, to the cooperating sponsor.



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6. Documentation of Distributions  
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Condition:

Certain shipping reports issued from the regional warehouses at Aguarico and Ambato were not signed by a person authorized to receive commodities at the distribution centers.

Criteria:

All shipping reports should be signed by a person authorized to receive the commodities as required by AID Regulation 11.211.10 (a) dealing with the requirements for the preparation of records and documentation.

Cause:

Adherence to this requirement had not been enforced by the cooperating sponsor.

Effect:

Internal and external reviewers were precluded from verifying that commodities had been delivered to only authorized recipients.

Recommendation:

- A. USAID/Ecuador should require CRS/SENAPS to instruct provincial authorities to document in writing the delivery of commodities to the distribution centers by obtaining the signature of an authorized person upon delivery.
- B. USAID/Ecuador should require CRS/SENAPS to review all reports to ensure adherence to this requirement.



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SUPERVISION OF PROGRAM

7. Supervision Procedures  
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Condition:

The cooperating sponsor had not maintained adequate supervision over the program as evidenced by the following observed conditions:

- A. Between August, 1985, and September, 1986, the cooperating sponsor did not maintain a permanent director representative in the country.
- B. Internal reviews conducted by SENAPS officials during the year, including warehouse inspections, physical inventories and end-use checks, were insufficient to disclose the main deficiencies in the operation of the program at certain locations. The results of those reviews were not documented.
- C. Based on the preceding comments, the number of supervisory personnel assigned by SENAPS appeared to be insufficient to properly review and control the execution and reporting on the results of the program.

Criteria:

In accordance with AID Regulation 11.211.5 (b) cooperating sponsors shall provide adequate supervisory personnel for efficient operation of the program and for making internal reviews, including warehouse inspections, physical inventories and end-use checks. The cooperating sponsor shall be permanently represented by a resident U.S. citizen in the country.



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Cause:

The cooperating sponsor had not defined the appropriate controls and number of internal reviews necessary to maintain proper supervision over the program and, consequently, the necessary resources had not been assigned to this function.

Effect:

As a result of the above described lack of supervision, the cooperating sponsor had failed to comply with several agreement terms, as described in the following section on compliance with agreement terms, and had failed to identify and correct various reporting errors caused by deficiencies in records and documentation of transactions, as described in point 1 above. Because of a lack of adequate supervision over the program, irregularities may occur and not be detected.

Recommendation:

- A. USAID/Ecuador should require CRS/SENAPS to develop a formal plan of periodic internal reviews, including warehouse inspections, physical inventories, control over report preparation and end-use check. This plan should be tailored to the local operation and to the control requirements established by AID. The number and timing of such reviews should be formally established.
- B. USAID/Ecuador should require CRS/SENAPS to assign the required human and technical resources to achieve the established supervision objectives.



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The cooperating sponsor agreed with most of the findings on internal controls. The cooperating sponsor indicated that they attempt to provide reasonable assurance that commodities are administered according to the regulations. They stated that permanent supervision and accounting controls over the preparation of records and documents exists at all levels of the PL 480, Title II Program; although they recognized that supervision and accounting controls may not be adequate. They disagreed with the "cause" under findings 2, 3, 4 and 5 stated as the lack of formal instructions for the execution of controls over selection of distribution centers, cash contributions, receipts of commodities and documentation of physical inventories. The cooperating sponsor indicated that instructions were issued and established even though the instructions may not have been adequate and/or adequate supervision over enforcement may not have been provided. The cooperating sponsor also stated that in an effort to correct these deficiencies, a CRS internal auditor conducted a complementary audit of the program by visiting the operations at Portoviejo, Cuenca and Latacunga between January 19 and February 11, 1987. His findings in Portoviejo were agreed to by the Diocesan staff, SENAPS and CRS, and during the week of February 9, a team of SENAPS supervisors went to Portoviejo to implement the recommendations and to make major changes in program administration and supervision.

The entire text of management's written response dated February 13, 1987, is included in Appendix I to this report.

Auditor's Response  
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Recommended formal instructions for the execution of controls are defined, for purposes of this report, as communications in writing subject to objective verification of compliance. Although formal oral instructions may have been given by the cooperating sponsor, they



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would not meet the above definition. We believe that CRS' comments related to the "cause" in findings 2, 3, 4 and 5 could relate to this type of situation. We found no evidence of formal written instructions in these cases.



*Price Waterhouse*



AUDIT OF THE PL 480 TITLE II  
PROGRAM - ECUADOR

REPORT ON COMPLIANCE WITH AGREEMENT TERMS

AUDITOR'S OPINION

We have examined the commodity statement applicable to the PL 480, Title II Program in Ecuador for the year ended September 30, 1986 and as part of our examination, we made a study and evaluation of the system of internal accounting controls. Our examination was made in accordance with generally accepted auditing standards and the "Standards for Audit of Governmental Organizations, Programs, Activities and Functions" (1981 revision), which included as additional standards and requirements the review of the compliance with laws, regulations, and agreement terms.

Transactions selected for the purpose of performing our examination were also tested for compliance with applicable laws, regulations, and agreement terms. Specifically, the following items were tested for compliance with the terms of PL 480, Title II and AID Regulations contained in Handbook 9.

1. The submission of required reports (AID requirement 11.211.10)
2. The use of commodities (AID requirement 11.211.5)
3. Proper distribution to eligible recipients (AID requirement 11.211.7)
4. Adequate publicity as an AID program (AID requirement 11.211.5)
5. The use of proceeds from sales of containers (AID requirement 11.211.5)
6. The eligibility of recipients (AID requirement 11.211.5)



7. Prompt reporting and proper disposal of commodities unfit for human consumption (AID requirement 11.211.8 and 11.211.9)
8. Prompt reporting of all losses and misuses of commodities (AID requirement 11.211.9).

Our examination revealed certain matters, as described under points 1 through 9 accompanying this report, that came to our attention which, we believe, indicate that certain transactions carried out under the PL 480, Title II Program in Ecuador during the year ended September 30, 1986 were not in compliance with the terms, provisions or conditions of PL 480, Title II and/or the provisions of AID Regulations contained in Handbook 9. We also believe that the conditions described in our report on internal accounting controls, taken as a whole, also result in more than a relatively low risk that transactions not subjected to our audit tests, as stated above, were not in compliance with the above-mentioned terms, provisions or conditions.

*Price Waterhouse*

December 4, 1986

AUDIT OF THE PL 480 TITLE II

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GENERAL REPORTING REQUIREMENTS

1. Submission of Reports on Comprehensive Internal Reviews.  
-----

Condition:

As of the date of this report, the cooperating sponsor had not submitted to USAID its report of a comprehensive review of the program conducted in September 1986.

Criteria:

Per AID Regulation 211.10 (b) reports of all comprehensive internal reviews shall be submitted to USAID for review as soon as completed.

Cause:

The cooperating sponsor had not complied with the above regulation.

Effect:

Delays in the submission of required reports precludes USAID from implementing timely corrective actions for problems identified by the reports.

Recommendation:

USAID/Ecuador should require CRS/SENAPS to strictly comply with AID Regulations concerning the preparation and delivery of required reports in a timely manner.

2. Submission of Periodic Summary Reports Required by  
-----

USAID  
-----

Condition:

Periodic summary reports required by USAID were not prepared and submitted by the cooperating sponsor on a timely basis.



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Criteria:

Per AID Regulation 11.211.10 (b) the cooperating sponsor shall submit periodic summary reports to USAID showing receipt, distribution and inventory of commodities at such times as prescribed by AID.

Cause:

The cooperating sponsor had not been formally instructed as to the time-frames for submission of these reports.

Effect:

Periodic summary reports submitted to USAID during the fiscal year were submitted three months after the end of each reporting period. These delays precluded USAID from having the information available for use in a timely manner.

Recommendation:

- A. USAID/Ecuador should require CRS/SENAPS to expedite preparation of required commodity status reports.
- B. USAID/Ecuador should require CRS/SENAPS to instruct provincial authorities to develop and submit reports within established time-frames.
- C. USAID/Ecuador should instruct the cooperating sponsor as to the time-frames within which required periodic reports are to be submitted to USAID.

USE OF COMMODITIES

3. Unauthorized Distributions  
-----

Condition:

- A. Some commodities were distributed to ineligible recipients. Those distributions totaling approximately 13,700 pounds for the year were from the warehouses at Zamora and Quito and were earmarked "emergency"



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issues. The distributions were not supported by adequate documentation.

- B. Approximately 560 pounds of commodities were reported as being distributed to a distribution center in Zamora (Escuela Luis F. Borja) after that center had formally discontinued the program during the first quarter of 1986.

These distributions were noted during our review of the compilation of all distributions from commodities stock at these locations.

Criteria:

The cooperating sponsor should ensure that commodities are used only for their intended purposes.

Cause:

Provincial directors at the two regional warehouses allowed distributions of commodities under conditions not authorized by AID Regulations. Those distributions were not reported to USAID.

Effect:

Commodities totaling approximately 14,300 pounds were improperly distributed from the warehouses at Quito and Zamora and as a result, were not used for their intended purposes. This quantity of unauthorized distributions represents approximately three percent of total quantities distributed during the year from these locations.

Recommendation:

USAID/Ecuador should require CRS/SENAPS to develop and implement adequate review procedures to identify, on a timely basis, possible misuses of commodities and adopt appropriate steps to:

- A. Preclude improper distributions of commodities.
- B. Report all misuses of commodities to USAID.



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4. Unauthorized Use of Commodities.

-----

Condition:

The Zamora regional warehouse was administered by a civilian who received a certain quantity of commodities during the year as compensation for this function. The relationship between the cooperating sponsor and this individual was not formally documented, therefore this individual was not an approved recipient of these commodities.

Criteria:

Delivery of commodities to other than approved recipients should be promptly reported to USAID. The legal relationship between the administrator of the Zamora warehouse and the cooperating sponsor should be formally documented and approved.

Cause:

The cooperating sponsor had neither formally established nor approved the conditions under which this regional warehouse was being administered.

Effect:

Commodities totaling approximately 700 pounds delivered during the year to this individual were not used for their intended purposes. Such distributions represented approximately 1 percent of total issues from commodities stock at this location during the year.

Recommendation:

USAID/Ecuador should require CRS/SENAPS to perform an investigation of the situation described and report the results to USAID for review and resolution.



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DISTRIBUTION OF COMMODITIES

5. Documentation of Distributions  
-----

Condition:

Several distribution centers visited did not maintain records supporting the quantities of commodities distributed to recipients. Our observations were developed during our visits to 12 of the 16 distribution centers inspected.

Criteria:

In accordance with the terms of the contract agreement with each distribution center, they are required to maintain adequate records supporting the quantity of commodities distributed.

Cause:

The cooperating sponsor had not strictly enforced application of this provision contained in the contract.

Effect:

Since the quantities of commodities distributed from several distribution centers were not properly supported, there was a possibility that the commodities were not properly distributed to eligible recipients.

Recommendation:

USAID/Ecuador should require CRS/SENAPS to perform a critical review at all distribution centers and to strictly enforce the contract provision requiring distribution centers to maintain adequate records supporting the quantities of commodities distributed.

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PUBLICITY AS AID PROGRAM

6. Public Recognition  
-----

Condition:

Most of the recipients consulted were not aware that the commodities were donated by the people of the United States of America.

Criteria:

In accordance with AID Regulation 11.211.5 (g) the cooperating sponsor shall, to the extent feasible, display banners, posters or similar media at distribution centers, which shall contain information similar to that prescribed for containers, as a means of promoting public recognition that the commodities have been furnished by the people of the United States.

Cause:

The cooperating sponsor had not properly enforced application of these requirements. Furthermore, no effective steps had been taken to ensure that (a) the required posters or other media were available at each location, (b) proper instructions were given to officials responsible for distributing the commodities and for publicizing the program and (c) these requirements were being accomplished.

Effect:

There was a very low degree of recognition that these commodities were donated by the people of the United States (approximately 96 percent of our sample of 45 recipients were not aware of this fact). This could result in improper recognition of other entities or persons.



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Recommendation:

USAID/Ecuador should require CRS/SENAPS to:

- A. Review current availability of publicity media at all provincial warehouses and, if necessary, determine requirements for immediate supply.
- B. Impress on provincial directors the need for complying with the AID requirement for adequately publicizing the source of commodities.
- C. Develop adequate programs to review on a recurring basis compliance with the above requirements through visits to the distribution centers.

ELIGIBILITY OF RECIPIENTS

7. Distributions to Unauthorized Beneficiaries  
-----

Condition:

Certain commodities distributed from a distribution center in the vicinity of Napo were delivered to ineligible recipients.

Criteria:

In accordance with AID Regulation 11.211.5 (e) cooperating sponsors shall be responsible for determining that the recipients to whom they distribute commodities are eligible in accordance with the terms of the program.

Cause:

The cooperating sponsor had not performed sufficient effective reviews to verify compliance with the requirement and to correct possible deviations.

Effect:

Commodities totaling approximately 5,000 pounds that were to be delivered to a school feeding program were



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distributed to students' parents during the annual school recess and as a result, the commodities were not used for the purposes of the program.

Recommendation:

USAID/Ecuador should require CRS/SENAPS to develop and implement adequate review programs at the distribution centers to ensure that commodities are distributed to only eligible recipients.

DISPOSAL OF DAMAGED COMMODITIES

8. Commodities Improperly Disposed Of  
-----

Condition:

Commodities unfit for human consumption were disposed of without certification by public health officials or a similar competent authority. Certificates of disposition were not prepared and submitted to AID.

Criteria:

In accordance with AID Regulation 11.211.9 (c) (1) the cooperating sponsor shall obtain a certification by a public health official or a similar competent authority as to (a) the condition of the commodity in any case where a damaged commodity appears to be unfit for its intended use and (b) a certificate of disposition in the event the commodity is determined to be unfit for its intended use. Per AID Regulation 11.211.9 (c) (2) (f) the cooperating sponsor shall promptly notify USAID in writing of the circumstances of any loss, damage or misuse of commodities.

Cause:

The cooperating sponsor had not properly enforced application of the above requirements.



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Effect:

Approximately 400 pounds of commodities out of total reported losses of 8,430 pounds were disposed of during the fiscal year as damaged goods unfit for their intended use, without the necessary certifications.

Recommendation:

USAID/Ecuador should require CRS/SENAPS to strictly enforce the application of AID Regulations concerning the disposition of commodities unfit for their intended use.

REPORTS ON LOSSES AND MISUSES OF COMMODITIES.

9. Unreported Shortage of Commodities  
-----

Condition:

A shortage of 40,000 pounds of rolled oats at the regional warehouse located in the city of Portoviejo was not reported to USAID. Furthermore, other shortages totaling approximately 240 pounds were not reported to USAID.

Criteria:

The cooperating sponsor shall promptly notify USAID in writing of the circumstances pertaining to any loss of commodities as required by Regulation 11.211.9 (c)(2)(f).

Cause:

The cooperating sponsor did not comply with the regulation indicated above.

Effect:

Approximately 40,000 pounds of rolled oats out of total reported commodities of 209,400 pounds shipped to the Portoviejo regional warehouse during the year and 240 pounds of other commodities may not have been used for their intended purpose.



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**Recommendation:**

USAID/Ecuador should require CRS/SENAPS to perform an urgent and careful investigation of the reasons for the shortages, define responsibilities and report the results of the investigation to USAID for review and resolution.



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Regarding the findings on compliance with agreement terms, CRS stated that, generally, they thought they were in compliance with the terms of the basic agreement. However, CRS acknowledged that this may not have been adequate. The cooperating sponsor stated that certain recommendations for the findings on compliance with agreement terms did not apply or should be modified as follows:

Finding/concept -----	Summarized comment of CRS -----
1. Submission of Reports on Comprehensive Internal Reviews	The results of the 1983 review were given to the auditors. The results of the September 1986 audit are pending final approval from CRS New York. Once approved the results will be forwarded to USAID.
2. Submission of Periodic Summary Reports Required by USAID	According to the cooperating sponsor, it has been formally instructed as to the reporting deadlines and, therefore, point C of the recommendation should be deleted. At the exit conference held on February 24, 1987, the CRS Director referred to AID Handbook 9 as providing formal guidelines for the submission of periodic summary reports required by AID.
3. Unauthorized Distributions 7. Distribution to Unauthorized Beneficiaries	These two recommendations should be combined, as they relate to the need for ensuring that commodities are used only for their intended purpose, which if complied with would preclude any improper use of commodities.



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Finding/concept -----	Summarized comment of CRS -----
4. Unauthorized Use of Commodities	The situation observed relates to the commodities belonging to Zamora but stored at Loja. The arrangement to pay the administrator at Loja with commodities was orally authorized by the Franciscan Mission. This situation has already been corrected by arranging for the commodities programmed for distribution at Zamora to be delivered directly from Guayaquil and closing the warehouse in Loja.
5. Documentation of Distributions	The recommendation should firmly state that the distribution centers should prepare lists of beneficiaries and quantities of commodities delivered to them.
6. Public Recognition	The cooperating sponsor stated that it thought the sample of recipients applied by the auditors was too small to derive the material effect cited in the finding. The cooperating sponsor stated that in their own audits and field visits, they have found most beneficiaries are aware of the source of the commodities.



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Finding/concept -----	Summarized comment of CRS -----
9. Unreported Shortage of Commodities	The commodities arrived and were distributed. This was confirmed by CRS/SENAPS after checking actual distribution receipts signed and certified by personnel of the distribution centers. At the exit Conference held on February 24, 1987, the CRS Director stated that official records of receipt of the 40,000 pounds of commodities were prepared after the fact, but distribution of those commodities was certified by the recipients.

The entire text of management's written response dated February 13, 1987, is included in Appendix I to this report.

Auditor's Response  
-----

Regarding the unreported shortage of commodities in finding number nine, it should be noted that the distribution reports referred to therein were not available for our inspection as of the date of our review. According to the CRS Director, the reports were prepared after the fact and consequently, the difference in the quantity shipped to the warehouse could not be accounted for by the cooperating sponsor at the date of our audit. Since CRS' response did not include evidence that the 40,000 pounds of commodities were received, the recommendation remains as stated until such time as evidence is provided. Concerning finding number two, submission of periodic summary reports, we understand that AID Handbook 9 does not provide for reporting date deadlines. We found no evidence that reporting date deadlines had been



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emphasized or required by USAID/Ecuador. According to the CRS Director, finding number four related to unauthorized use of commodities has been corrected by closing the warehouse in question. However, this recommendation will remain open until the documentation referred to in CRS' written response is provided to AID for review and resolution.

CRS' other comments are self explanatory and relate to aspects of implementation of the recommendations or further clarification of the comments and do not affect the recommendations as stated.



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APPENDIX I

Quito, February 13, 1987

Mr. Teodoro A. Kudlak  
Chief of Audit  
Price Waterhouse & Co.  
Av. Patria 640 - P. 11  
Quito

Dear Mr. Kudlak:

After a careful review of the third draft report for discussion which we received on February 10, 1987, related to the audit recently carried out by your firm of our PL 480, Title II food program, we offer the following comments and suggestions which we would ask be included in the final document.

Given that in the previous draft audit reports you gave an opinion that the commodity and distribution statements presented to you for your inspection fairly represented the situation examined, we are concerned that in this third draft report you state you cannot express an opinion. Since one of the objectives of the audit is to provide an opinion, we would ask that you reconsider this and give an opinion.

In general, CRS and SENAPS maintain that as part of our responsibility to establish and maintain internal accounting control for this program, we attempt to provide reasonable assurance that commodities are administered according to regulations. We submit that permanent supervision and accounting controls over the preparation of records and documents do exist at all levels of PL 480, Title II program administration, although we recognize that these may not be adequate.

The following are specific comments on your study.

Letter to Mr. Gothard, Inspector General

The following text more accurately represents the management situation of the program:

"Since September, 1986, CRS maintains a resident US citizen representative director in Ecuador. The representative director of CRS manages the PL 480, Title II Program in conjunction with the national director of the local counterpart agency, SENAPS.

The CRS and SENAPS directors have designated administrative responsibility of the program to a supervisor of physical resources within SENAPS, who is assisted by two assistant supervisors. The Diocesan directors of Social Pastoral in each province, or Diocese, are responsible for program implementation at this level and they report to the national SENAPS. SENAPS in turn prepares reports for review and approval by CRS."

Report on Internal Accounting Control Conditions Observed.

We submit that we have established internal accounting controls for the PL 480 Program, although we agree that these may not be adequate. We are in agreement with most of your findings. However, in points 2, 3, 4 and 5 under "Cause" the auditors state that we have not issued formal instructions concerning documentation, manner of reporting and control of the commodities. We have issued an established instructions, although these may not have been adequate or we may not have provided adequate supervision of them, resulting in deficiencies in internal accounting control.

In an effort to correct these deficiencies, a CRS internal auditor conducted a complementary audit of the food program visiting Portoviejo, Cuenca and Latacunga Diocesan operations between January 19 and February 11, 1987. His findings in Portoviejo were agreed to by the Diocesan staff, SENAPS and CRS, and during the week of February 9 a team of SENAPS supervisors went to Portoviejo to implement the recommendations and make major changes in program administration and supervision.

Report on Compliance with Agreement Terms.

CRS and SENAPS submit that we have acted generally in compliance with the terms of the agreement, although we recognize this may have not been adequate. We agree with several of your findings, however some of them we feel do not apply:

1. Unreported shortage of commodities.

There was no shortage of commodities to report. Results of an immediate investigation revealed that the apparent loss was actually a failure to report the arrival of the 40,000 pounds of rolled oats in the Diocesan inventory control register. It was confirmed that the oats had arrived, and been distributed, after checking actual distribution receipts signed and certified by distribution center personnel. The recommendation therefore does not apply.

2. Unauthorized distributions.

If the cooperating sponsor would ensure that commodities are only used for their intended purpose, this would preclude any improper or mis-use of the commodities. Also, point number 7, "Eligibility of Recipients," refers to the same basic concerns.

Therefore we suggest points 3 and 7 be merged and the recommendation read as follows:

"Develop and implement adequate review procedures to preclude possible misuses of commodities, and ensure that commodities are distributed only to eligible recipients, specifically:

- A. Preclude improper distributions of commodities.
- B. Undertake emergency distributions of commodities in strict compliance with USAID regulations.

3. Submission of reports required by USAID.

We respectfully request the auditors to clarify their statement under "Cause," since we consider we have been formally instructed as to the reporting deadlines for submission of reports. We suggest the recommendation consist of points A and B only, deleting point C.

#### 4. Public recognition.

We respectfully question the material effect of the auditors' finding that most of the recipients consulted were not aware that the commodities are donated by the people of the United States, given that the sample consulted by them was very small in relation to the size of the program, and given that in our own audits and field visits we find most beneficiaries are aware of the source of the commodities.

With regard to the use of printed media, the legend and emblem printed on each container clearly stated the source of the donation and is appreciated by the majority of beneficiaries. We consider this plus verbal information is the most feasible way to promote public recognition that the commodities are donated by the people of the United States. We suggest the recommendation be modified to read as follows:

"The cooperating sponsor will impress upon and instruct Diocesan and distribution center personnel to inform beneficiaries at the time of distribution that the commodities are donated by the people of the United States."

#### 6. Deadlines for submission of reports on comprehensive internal reviews.

The auditors found that CRS internal reviews and audits were carried out in 1983 and in September, 1986. The results of the 1983 audit were given to the auditors, and the results of the 1986 audit are pending final approval from CRS New York.

Once approved, the results will be forwarded to USAID as is normal procedure. It is therefore incorrect to state that the cooperating sponsor has not complied with the requirement, and we respectfully submit that the recommendation does not apply.

#### 7. Documentation of distributions.

In order to state this recommendation in the most concrete way possible, we suggest it be modified to read as follows:

"Provide documentation to support the actual quantities of commodities distributed to recipients in each center at the

time of each distribution by preparing lists of beneficiaries and quantities of commodities delivered to them."

8. Administration of the Zamora central warehouse.

We would like to correct two factual errors in this finding. First, the finding actually refers to the situation at the Loja warehouse, not the Zamora warehouse, although the commodities involved do pertain to Zamora.

Secondly, the Loja warehouse is administered by a non-religious person, however he is not a "civilian authority" as stated in the auditors' report.

At the time the finding was brought to our attention, we proceeded immediately to obtain documentation from the Franciscan Mission in Zamora which had verbally authorized the arrangement with the warehouse administrator. This documentation will be reported to USAID promptly for review and resolution.

In order to permanently correct the situation, we have arranged for commodities programmed for distribution in Zamora to be delivered from Guayaquil directly to the Franciscan Mission in Zamora, avoiding the warehouse stop in Loja. Since there is no PL 480 distribution in Loja, the Loja warehouse is now considered closed. We therefore submit that this recommendation does not apply.

9. Eligibility of recipients.

Please refer to 2, above, and our suggestion that the findings and recommendations of 2 and 9 be merged.

Thank you for your kind consideration of our comments to your audit report. We look forward to the emission of the final report.

Best wishes.

Sincerely,

Carol A. Munroe  
Director Ecuador Program  
Catholic Relief Services

Osvaldo Mata Mera  
Executive Secretary  
SENAPS

cc: Dr. Terence Martin, CRS New York  
Mr. James Thom, CRS New York  
Dr. J. Audrey Wight, USAID Ecuador  
Mons. Luis Enrique Orellana, Secretary  
Ecuadorian Episcopal Conference

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