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AUDIT OF THE
PUBLIC LAW 480, TITLE II PROGRAM
WITH CARE IN PERU

Audit Report No. 1-527-87-11-N
May 13, 1987

AGENCY FOR INTERNATIONAL DEVELOPMENT

OFFICE OF THE REGIONAL INSPECTOR GENERAL
AMERICAN EMBASSY
TEGUCIGALPA - HONDURAS

May 13, 1987

MEMORANDUM

TO : D/USAID/Peru, Donor Lion
FROM : RIG/A/T, *Coinage N. Gothard*
Coinage N. Gothard, Jr.
SUBJECT: Audit Report No. 1-527-87-11-N, "Audit of the Public Law 480,
Title II Program with CARE in Peru"

This report presents the results of a non-Federal audit of the Public Law 480, Title II Program in Peru operated by CARE-Peru. The certified public accounting firm of Arthur Andersen in Peru prepared the report, which is dated March 27, 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 CARE-Peru with the laws, regulations and agreement provisions to which they are subject in relation to the program.

Arthur Andersen concluded that the commodity statement presents fairly the information for the year ended September 30, 1986. Their study and evaluation disclosed that the system of internal controls was sufficient for administering the project. They determined that CARE-Peru was not in compliance with certain agreement terms applicable to the PL 480, Title II Program, but for items not tested, nothing came to their attention that caused them to believe that untested items were not in compliance.

The Arthur Andersen report contains one recommendation to improve the CARE-Peru system of internal controls and three recommendations to achieve compliance with agreement terms. We believe that these recommendations will help improve CARE-Peru's administration and compliance. 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/Peru obtain evidence from CARE in Peru to demonstrate that it has implemented the one recommendation to improve the system of internal controls and the three recommendations to achieve compliance with agreement terms presented in the Arthur Andersen report dated March 27, 1987.

Please advise this office within 30 days of the actions planned or taken to implement this recommendation.

AUDIT OF THE PL 480 TITLE II

PROGRAM - PERU

CARE

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CARE - PERU

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AUDIT OF THE PL 480 TITLE II

PROGRAM - PERU

CARE

CARE - PERU

TABLE OF CONTENTS

	<u>Page</u>
I. TRANSMITTAL LETTER AND SUMMARY	1
II. COMMODITY STATEMENT	
Report on commodity statement	6
Commodity statement	8
Note to the commodity statement	9
Management's comments on commodity statement	11
III. INTERNAL CONTROLS	
Report on internal controls	12
Report on overall internal controls	12
Report on accounting system	14
Report on physical controls over commodities	14
Report on supervision of program	15
Audit findings and recommendations	16
Management's comments on internal controls	17
IV. COMPLIANCE WITH AGREEMENT TERMS	
Report on compliances with agreement terms	18
General reporting requirements	20
Use of commodities	21
Distribution of commodities	22
Publicity as an AID program	23
Use of proceeds from sales of containers	24

	<u>Page</u>
Eligibility of recipients	25
Disposal of damaged commodities	26
Reports on losses and misuses of commodities	27
Instances of fraud or illegal acts	28
 Audit findings and recommendations	 29
 Managements' comments on compliance with agreement terms	 33

5

I. TRANSMITTAL LETTER AND SUMMARY

COLERIDGE Y ASOCIADOS
REPRESENTANTES DE
ARTHUR ANDERSEN & CO.

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

Dear Mr. Gothard:

This report presents the results of our audit of the voluntary agency CARE in connection with the PL 480 Title II Program - Peru.

BACKGROUND

The objectives of the Public Law 480, Title II Program, commonly known as the Food for Peace Program, are: (a) to determine requirements (needs) and furnish agricultural commodities on behalf of the people of the United States of America; (b) to meet famine or other urgent or extraordinary relief requirements; (c) to combat malnutrition, especially in children; (d) to promote economic and community development in friendly developing areas; and (e) to assist needy persons, nonprofit school lunch and preschool feeding programs outside the United States of America. Title II commodities in Peru are provided through school feeding, maternal-child health, food for work and other institutional feeding programs.

The U.S. Agency for International Development's (AID) P.L. 480, Title II Program in Peru is implemented through four voluntary agencies, which are: Catholic Relief Services (CRS), the Adventist Development Relief Agency (ADRA),

the Church World Service (CWS) and CARE. The Peruvian counterpart agencies of CRS, ADRA, CWS and CARE are CARITAS del PERU (CARITAS), Obra Filantrópica y Asistencia Social Adventista (OFASA), Servicio Evangélico Peruano de Acción Social (SEPAS) and CARE - Peru, respectively.

CARE-Peru has operated in Peru since 1970. It handles approximately eight percent of the total commodities of the PL 480 Title II Program in Peru through two regions, Lima and Trujillo. CARE-Peru distributes rice, non-fat dry milk (NFDM), wheat, soybean oil, rolled oats, and corn-soya milk to approximately 35,000 recipients (approximately 80 percent located in Lima, and 20 percent in Trujillo) through a food for work program whose objective is to support the Basic Infrastructure Development Project (PIBA) in the urban marginal areas of Lima-Callao and Trujillo. CARE-Peru operates in conjunction with public entities of the Peruvian Government such as the "Forest and Fauna National Institute " (INFOR), the "National Office of Food Support" (ONAA) and the "National System of Popular Cooperation" (COOPOP).

AUDIT OBJECTIVES AND SCOPE

The overall objectives of our audit were (a) to perform an examination of the commodity statement of CARE-Peru for the year ended September 30, 1986, which statement is expressed in quantities and not values, (b) to evaluate CARE-Peru's internal controls over commodities and (c) to evaluate its compliance with AID regulations and the Food for Peace Program (P.L. 480, Title II Program - Peru).

Our examination of the commodity statement was performed in accordance with generally accepted auditing standards and with the United States Comptroller General's "Standards for Audit of Governmental Organizations, Programs, Activities, and Functions" (1981 revision) herein called "Comptroller General's Standards" and, accordingly, included such tests of the accounting records and such other auditing procedures as we considered necessary in the circumstances, except as explained in our auditors' report dated December 10, 1986, included elsewhere in this document.

The scope of our work consisted of the following:

1. Reading the AID regulations and the "Comptroller General's Standards" prior to the commencement of our work,
2. Reviewing the activities of the voluntary agency (CARE-Peru) pertaining to the physical receipt, storage, distribution and use of commodities by recipients in order to obtain an understanding of its procedures and physical controls,
3. Reviewing and evaluating CARE-Peru's accounting system and records relating to the activities indicated in point 2 above,
4. Reviewing CARE-Peru's internal controls related to the physical safeguarding, warehousing, controlling and delivering of commodities to the distribution centers (project sites) to determine whether the receipt, storage and

handling of commodities were in compliance with AID regulations. Such work included visits to certain selected warehouses utilized by CARE-Peru, and included certain physical inventory test counts,

5. Visiting certain project sites and performing compliance testing related to the receipt, storage and distribution of commodities received by such projects and delivered to the eligible recipients to determine whether the distribution of commodities was made in compliance with AID regulations. Such visits also included interviews with the program beneficiaries, and
6. Examining CARE-Peru's commodity statement, expressed in quantities, for the year ended September 30, 1986.

RESULTS OF AUDIT

1. Commodity statement for fiscal year 1986

We did not observe the physical inventories (reflected in the commodity statement for a total of 1,193,505 kilograms) taken as of September 30, 1985 because that date was prior to our initial engagement. In our opinion, except for the effect of such adjustments, if any, as might have been disclosed had we been able to observe the physical inventories taken as of September 30, 1985, the commodity statement included in Section II presents fairly the information set forth therein.

2. Internal controls over commodities

The results of our study and evaluation indicate that, in our opinion, the internal controls over commodities, taken as a whole, achieve the internal control objectives as set forth in our auditors' report on internal controls dated December 10, 1986, as more fully described in Section III.

3. Compliance with agreement terms

Our examination revealed that the cooperating sponsor and its counterpart agency were not in compliance with certain agreement terms relating to general reporting requirements, and publicity as an AID program.

4. Management comments

Certain comments of CARE-Peru management have been incorporated within this document.

Coleridge y Asociados

Lima, Peru,

March 27, 1987.

II. COMMODITY STATEMENT

COLERIDGE Y ASOCIADOS
REPRESENTANTES DE
ARTHUR ANDERSEN & CO.

CARE

CARE - PERU

REPORT ON COMMODITY STATEMENT

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

We have examined the accompanying commodity statement of CARE-Peru for the year ended September 30, 1986, expressed in Kilograms. Our examination was made in accordance with generally accepted auditing standards and with the United States Comptroller General's "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, except as explained in the following paragraph.

We did not observe the physical inventories (reflected in the commodity statement for a total of 1,193,505 Kilograms) taken as of September 30, 1985 because that date was prior to our initial engagement.

In our opinion, except for the effect of such adjustments, if any, as might have been disclosed had we been able to observe the physical inventories taken as of September 30, 1985, as discussed in the preceding paragraph, the commodity statement referred to above presents fairly the information set forth therein.

Lima, Peru,

December 10, 1986.

Coleridge y Asociados

15

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COMMODITY STATEMENT

FOR THE YEAR ENDED SEPTEMBER 30, 1986

(In Kilograms)

	<u>Total</u>	<u>Rice</u>	<u>Wheat</u>	<u>Soybean Oil</u>	<u>Corn- soya milk (C S M)</u>	<u>Rolled oats</u>	<u>Non- fat dry milk (N F D M)</u>
BALANCES AS OF SEPTEMBER 30, 1985	1,193,505	327,332	547,032	98,962	219,728	451	-
FISCAL YEAR 1986 ACTIVITY:							
Commodities received	3,969,926	2,828,771	432,739	111,591	405,972	-	190,853
Commodities distributed to food for work program	(2,098,294)	(858,658)	(869,408)	(103,470)	(194,601)	(526)	(71,631)
Commodities transferred to an emergency program in Puno	(1,278,487)	(760,150)	(103,455)	-	(414,882)	-	-
Other	(17,996)	(8,475)	(6,902)	(629)	(1,935)	75	(130)
BALANCES AS OF SEPTEMBER 30, 1986	<u>1,768,654</u>	<u>1,528,820</u>	<u>6</u>	<u>106,454</u>	<u>14,282</u>	<u>-</u>	<u>119,092</u>

The accompanying note is an integral part of this commodity statement.

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NOTE TO THE COMMODITY STATEMENT

FOR THE YEAR ENDED SEPTEMBER 30, 1986

The accompanying commodity statement reflects the physical activity of the commodities donated by AID's Title II Program in Peru to CARE-Peru for the period from October 1, 1985 through September 30, 1986. The bases for the preparation of the commodity statement were as follows:

1. Beginning and ending balances - Reflect the quantities of commodities available at such dates. Such balances are supported by physical inventory listings taken at such dates by CARE-Peru personnel.
2. Commodities received - Reflect the quantities of commodities donated by AID. The total quantities of commodities received correspond to the gross quantities reported in the bills of lading, including any losses and/or damages of commodities occurring during the voyages to Peru, which losses are reported as "other" in the commodity statement.
3. Commodities distributed to food for work program - Reflects the quantities of commodities distributed by CARE-Peru to the projects. The quantities are determined based upon the commodity delivery reports.

4. Commodities transferred to an Emergency Program in Puno - Reflect transfers of Title II commodities, approved by USAID/Peru, to areas which had been affected by adverse weather conditions and which are not part of the Title II Program (the regular program). Therefore the ultimate disposition of these commodities is not under the direction and control of CARE- Peru.

5. Other - Reflects the quantities of commodities lost and/or damaged during the voyage to Peru; and/or at the warehouses; and/or at the project sites. Such quantities are supported by the reports submitted by CARE-Peru to USAID/Peru.

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MANAGEMENT'S COMMENTS ON COMMODITY STATEMENT

Refer to letter from management, included as Appendix 1.

III. INTERNAL CONTROLS

COLERIDGE Y ASOCIADOS
REPRESENTANTES DE
ARTHUR ANDERSEN & CO.

CARE

CARE - PERU

REPORT ON INTERNAL CONTROLS

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

Report on Overall Internal Controls

We have made a study and evaluation of CARE-Peru's internal controls over the quantities of commodities handled on behalf of AID in effect during the period of our study, November, 1986. For the purpose of our study, we have classified the significant internal control procedures over the commodities into the following categories: (a) arrival in Peru, (b) storage, (c) handling, (d) shipment to project sites, (e) ultimate distribution of donated commodities from the project sites, and (f) overall program supervision. Our November, 1986 study included all the control categories listed above except for the arrival of commodities in Peru, item "a" above, because at the time of our review, November 1986, all the commodities corresponding to fiscal year 1986 had already been received in Peru.

20

Our study was conducted in accordance with the United States Comptroller General's "Standards for Audit of Governmental Organizations, Programs, Activities and Functions" (1981 revision).

The management of CARE-Peru is responsible for establishing and maintaining a system of internal controls over commodities. In fulfilling this responsibility, estimates and judgments by management are required to assess the expected benefits and related costs of control procedures. The objectives of a system are to provide management with reasonable, but not absolute, assurance that assets are safeguarded against loss from unauthorized use or disposition and that transactions are executed in accordance with management's authorization and are recorded properly to permit the preparation of the commodity statement and other reports according to AID regulations.

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

In our opinion, the system of internal control over commodities of CARE-Peru in effect during November, 1986, taken as a whole, was sufficient to meet the objectives stated above insofar as those objectives pertain to the prevention or detection of errors or irregularities in quantities that would be material in relation to CARE-Peru's commodity statement, expressed in kilograms.

Report on Accounting System

Our review of CARE-Peru's accounting system relating to commodities indicates that, in our opinion, the accounting records and documents reflected all significant transactions pertaining to the receipt, storage, shipment and distribution of commodities; adequate records and documents were maintained in connection with lost or damaged commodities; and the related quantity adjustments had been properly reflected in the accounting records.

Report on Physical Controls Over Commodities

Our review of CARE-Peru's procedures and physical controls over storage and handling of commodities, once received in CARE-Peru's storage facilities, indicate that, in our opinion, the storage facilities utilized by CARE-Peru were adequate to safeguard commodities from unauthorized access and adverse weather conditions; commodities were properly handled and stored to minimize the risk of damage of retaining inventory on a last-in, first-out basis; adequate records were maintained to account for the receipt and issuance of commodities; and the inventory records were compared to the physical inventories on a monthly basis, and appropriate action was taken with respect to significant differences.

21

We did not visit ports of entry to observe the arrival and discharge of commodities, their clearance through customs, and the shipment to CARE-Peru's storage facilities, since all of the commodities related to fiscal year 1986 had already been received in Peru when we performed our review in November, 1986.

Report on Supervision of Program

Our review of the documents maintained by CARE-Peru, visits to the storage facilities and distribution centers, and inquiries made of CARE-Peru's representatives and program recipients, indicate that, in our opinion, CARE-Peru on an overall basis has provided adequate supervision to manage the program, to implement controls, to evaluate programs involving distribution of commodities, and to make internal reviews, including warehouse inspections and physical counts of inventories.

Coleridge y Acuña

Lima, Peru,

December 10, 1986.

CARE-PERU

INTERNAL CONTROLS

AUDIT FINDINGS AND RECOMMENDATIONS

Internal Visit Reports

Condition -- We noted that in certain cases the respective internal visit reports were not prepared as a result of supervisory visits to the projects or entities.

Criteria -- Adequate documentation of all supervisory visits should improve the supervision function and provide a more effective control of the program.

Cause -- Lack of adequate recordkeeping.

Effect -- There is the risk that no written evidence would be developed as a result of actual visits where problems were detected.

Recommendation -- USAID/Peru should require CARE-Peru to prepare internal visit reports on project visits.

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MANAGEMENT'S COMMENTS ON INTERNAL CONTROLS

Refer to letter from management, included as Appendix 1.

25

IV. COMPLIANCE WITH AGREEMENT TERMS

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COLERIDGE Y ASOCIADOS
REPRESENTANTES DE
ARTHUR ANDERSEN & CO.

CARE

CARE - PERU

REPORT ON COMPLIANCE WITH AGREEMENT TERMS

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

We have examined the commodity statement of CARE-Peru for the year ended September 30, 1986, expressed in Kilograms. Our examination was made in accordance with generally accepted auditing standards and with the United States Comptroller General's "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, except as explained in our auditors' report dated December 10, 1986, included elsewhere in this document.

We have read AID Regulation Eleven, as amended, dated June 13, 1979, a copy of which was furnished to us by USAID/Peru, as it relates to those areas that we were requested to review during the course of our examination of the above described commodity statement. Such areas included the following:

1. General reporting requirements (11.211.10),
2. Use of commodities (11.211.5),
3. Distribution of commodities (11.211.7),
4. Publicity as AID program (11.211.5),
5. Use of proceeds from sales of containers (11.211.5),
6. Eligibility of recipients (11.211.5),
7. Disposal of damaged commodities (11.211.8 and 11.211.9),
8. Reports on losses and misuses of commodities (11.211.9), and
9. Instances of fraud or illegal acts

Our opinions as they relate to each of the above areas are set forth in the following sections. For items not tested by us, nothing came to our attention that caused us to believe that such untested items were not in compliance with AID Regulation Eleven.

Coleridge y Asociados

Lima, Peru,

December 10, 1986.

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GENERAL REPORTING REQUIREMENTS

As part of our review of the accounting system and our examination of CARE-Peru's commodity statement for the year ended September 30, 1986, expressed in kilograms, we have reviewed the records and reports required by AID Regulation Eleven. The results of our review indicate that CARE-Peru has not performed a complete internal review of the Title II Program under its jurisdiction since 1980, as required by Section 211.5 (c) of AID Regulation Eleven.

CARE

CARE-PERU

USE OF COMMODITIES

As a result of our visits to certain distribution centers (project sites) and warehouses, our review of the accounting records and other documents relating to certain projects, and our inquiries made of certain representatives of CARE-Peru and the program recipients, nothing came to our attention that caused us to believe that CARE-Peru had used the commodities received from AID for purposes other than those established in AID Regulation Eleven, and its approved food program in Peru.

As shown in the commodity statement and as disclosed in the note to such commodity statement in Section II, CARE-Peru transferred commodities received for its food for work program (the regular program) to an emergency program in Puno, which transfer was approved by USAID/Peru. We have concluded that such commodities were received in Puno, but we did not verify that such commodities transferred were properly used in the emergency program in Puno, since our compliance review covered only the commodities received and distributed under the regular program.

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DISTRIBUTION OF COMMODITIES

As a result of our review of the distribution process, our visits to certain distribution centers (project sites), our review of the accounting records and other documents relating to the distribution process, and our inquiries of representatives of CARE-Peru and program recipients, nothing came to our attention that caused us to believe that CARE-Peru had not distributed the commodities to eligible recipients according to the pre-established ration approved by USAID/Peru and had discriminated in the distribution to eligible recipients with regard to nationality, race, color, sex, religious or political beliefs, as established by AID Regulation Eleven and its approved food program in Peru.

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PUBLICITY AS AN AID PROGRAM

As a result of our visits to certain distribution centers (project sites) and warehouses; our review of the distribution listings; and our inquiries made of representatives of CARE-Peru and program recipients, in our opinion, CARE-Peru had made partial compliance with respect to publicity to AID's Title II Program under its jurisdiction as required by AID Regulation Eleven.

CARE-Peru has signed an agreement with the National Office of Food Support (ONAA) whereby ONAA assumed the responsibility for the distribution of the commodities. However, such agreement does not include a provision whereby ONAA shall give adequate publicity to AID's program.

Also, through our inquiries with program recipients and as a result of our visits to the project sites, we noted that certain recipients had no knowledge that the commodities had been donated by the people of the United States of America. During the course of the exit conference it was pointed out by CARE-Peru management that the way in which the initial questions and the follow-up questions were raised could have influenced the responses of the recipients.

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USE OF PROCEEDS FROM SALES OF CONTAINERS

Since the empty bags and/or containers are donated to the recipients, this point is not applicable to CARE-Peru.

27

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ELIGIBILITY OF RECIPIENTS

As a result of (a) our review of the procedures and related documentation used by CARE-Peru to evaluate and determine eligible distribution centers (projects) and/or recipients, (b) our visits to certain distribution centers and, (c) our inquiries of representatives of CARE-Peru and program recipients, nothing came to our attention that caused us to believe that CARE-Peru has not complied with AID Regulation Eleven relating to the determination of eligibility of recipients.

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DISPOSAL OF DAMAGED COMMODITIES

As part of our review of the accounting system and our examination of the commodity statement of CARE-Peru for the year ended September 30, 1986, expressed in kilograms, we have reviewed the procedures, controls and records relating to the disposal of damaged commodities as provided by AID regulations. During our review nothing came to our attention that caused us to believe that CARE-Peru had not disposed of the damaged commodities according to the criteria set forth in AID Regulation Eleven. Also during our visits to the warehouses utilized by CARE-Peru we did not observe any commodities that we believe should have been reported as damaged.

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REPORTS ON LOSSES AND MISUSES OF COMMODITIES

As part of our review of the accounting system, the physical controls over commodities and our examination of the commodity statement of CARE-Peru for the year ended September 30, 1986, expressed in kilograms, we have reviewed the reports on losses of commodities. During our reviews nothing came to our attention that caused us to believe that CARE-Peru had not reported the losses of commodities occurring during the fiscal year ended September 30, 1986 to USAID/Peru, as provided by AID Regulation Eleven. Also, nothing came to our attention that caused us to believe that there had been misuses of commodities that has not been reported by CARE-Peru, as provided by AID Regulation Eleven.

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INSTANCES OF FRAUD OR ILLEGAL ACTS

The "Standards for Audit of Governmental Organizations, Programs, Activities and Functions" (1981 revision) require all instances or indications of fraud, abuse, or illegal acts discovered during an audit to be reported. During the course of our work we did not detect any transactions that, in our opinion, were explicit indications of fraud or illegal acts.

57

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CARE-PERU

AUDIT FINDINGS AND RECOMMENDATIONS

Internal Reviews

Condition -- CARE-Peru had not performed a complete internal review of the Title II program under its jurisdiction.

Criteria -- Section 211.5 (c) of AID Regulation Eleven provides that the voluntary agency shall conduct or arrange to have conducted comprehensive internal reviews or a series of examinations which when combined, will represent a complete review of the Title II program under its jurisdiction.

Cause -- Internal reviews were not considered necessary.

Effect -- There could be non-compliance with respect to the program objectives and AID regulations which could be highlighted if an internal review were made.

Recommendation -- USAID/Peru should require CARE-Peru to submit a written annual internal review plan for USAID/Peru's approval, and, once so approval, to advise USAID/Peru when such review has been finalized.

Publicity as an AID Program

Condition -- We noted the following matters with respect to the publicity of AID's Title II Program:

- a. The Cooperation Agreement signed between CARE and the National Office of Food Support (ONAA), under which ONAA agrees to distribute the commodities, does not include any specific clause whereby ONAA should publicize that the commodities have been furnished by the people of the United States of America;
- b. During our visit to certain project sites and through inquiries of the recipient's representatives of the "Comedor Indoamericano" project, we noted that certain recipients had no knowledge of the origin of the commodities. They believed that such commodities were donated by ONAA or CARE;
- c. At the distribution centers (project sites) visited, there were no banners, posters, or similar media which indicated that the commodities had been furnished by the people of the United States of America; which could have resulted from the desire to limit publicity due to security reasons;
- d. The distribution listings signed by the recipients for receipt of the commodities did not include any inscriptions containing the above information; and

e. On the other hand there were instances where adequate publicity was noted, and recipients understood that the commodities had been donated by the U.S. A.

Criteria -- Section 211.5 (g) of AID Regulation Eleven provides that (a) to the maximum extent practical, and with the cooperation of the host government (in this case ONAA), adequate publicity shall be given that the commodities have been furnished by the people of the United States of America, (b) at distribution centers, the voluntary agency shall, to the extent feasible, display banners, posters, or similar media which shall contain publicity information and (c) recipients' individual identification cards shall, insofar as practicable, be imprinted to contain such publicity information.

Cause -- There was an inadequate communication of the publicity requirements to ONAA, which is responsible for the distribution of commodities to the distribution centers. Also the agreement signed between CARE and ONAA does not provide for such requirement.

Effect -- Certain recipients had no knowledge that the commodities were being donated by the people of the United States of America.

Recommendations -- USAID/Peru should request that CARE-Peru amend the cooperating agreement signed between CARE and ONAA so as to include the above AID requirement. Also, USAID/Peru should require CARE-Peru to evaluate the best way to give publicity to the program, considering the security environment

within Peru, and to implement such publicity to the maximum extent possible. Also, the distribution listing should be imprinted with the information required by Section 211.5 (G) of AID Regulation Eleven.

Donation of Empty Bags and/or

Containers to Program Recipients

Condition -- During November, 1985, CARE-Peru informed ONAA that, in the future, empty bags and/or containers should be donated, free of charge, to the program recipients. It also required ONAA to include a special clause in the food for work agreements indicating that the empty bags and/or containers were to be donated. Our review of the food for work agreements signed subsequent to November 1985, indicate that ONAA had not complied with the above requirement.

Criteria -- CARE-Peru is responsible to assure that the empty bags and/or containers are being donated to program recipients.

Cause -- There was non-compliance with the above requirement.

Effect -- There was a risk that empty bags and/or containers could have been sold to program recipients, or returned to ONAA.

Recommendation -- USAID/Peru should require CARE-Peru to insist that ONAA comply with the above requirement.

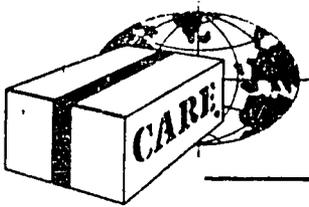
CARE

CARE-PERU

MANAGEMENT'S COMMENTS ON COMPLIANCE WITH AGREEMENT TERMS

Refer to letter from management, included as Appendix 1.

40



CARE INTERNACIONAL EN PERU

APPENDIX 1

CP#12151-87

Lima, 1° de abril de 1987

Señor
Julio Voysest
Coleridge Asociados
Representantes de
Arthur Andersen & Co.
Av. Arequipa #350
Ciudad

Estimado señor Voysest:

De acuerdo a lo previamente convenido, adjunto una traducción de nuestra carta del 18 de marzo de 1987 con algunas anotaciones adicionales.

Si tiene comentarios o preguntas sobre el particular le agradeceré se sirva contactarnos a la brevedad posible.

Atentamente,

James Coberly
James Coberly
Director
CARE-Peru

JC/gv
Adj.
124
301

TRANSLATION

CP# 12098-87
March 18, 1987

Mr. Julio Voysest
Coleridge Associated
Representing
Arthur Andersen & Co.
Av. Arequipa #330
Lima

Dear Sir:

We acknowledge receipt of your letter dated March 13 and with respect to the "tentative and preliminary draft", Spanish version of the PL480 Title II Commodities Audit Report, the following are our detailed comments and/or clarifications:

1. CARE-Peru's background

On page 2 it is indicated that CARE-Peru operates in Peru since 1980.

In this respect, we must point out that our organization has been operating in Peru since 1970. As regards the 1980 date, it must refer to at the beginning of the PIBA Food Program.

2. Activities - Sale of Empty containers

On page 19 it is recommended to establish control procedures on the sale of empty containers and utilization of proceeds according to those established in section 211.5 (1) of AID's Rules and Regulations.

In this respect, we must point out the existence of a General Directive #03-81-ONAA, by which selling procedures of these empty containers as well as the administration and use of the proceeds were implemented.

Furthermore, we must point out that in order to sell these empty containers, sealed-envelope bidding took place, where a representative of CARE-Peru was present, at the time the envelopes were opened. This can be verified from the documents in our files.

With respect to confirming account statements received by ONAA and to our coordination of actions on the utilization of these funds, we confirm that such funds have been utilized in the program, destined principally to improve implementation of the ONAA warehouses.

At the time of the Audit there was a balance of I/24,953.00 in the checking account, amount which in accordance with ONAA, was utilized in the acquisition of fumigating equipment.

It is very important to mention that in accordance with USAID/Peru authorization, as of November 1985, the empty containers are being donated to program beneficiaries. We appreciate that during the audit period of October 1985-September 1986, only one month could be subject to revision in accordance with recommendations made by your firm.

In this respect we are attaching copies of our CP#9218-85, CP#11542-86, CP#11622-86, as well as ONAA's official correspondence #1382-86-ONAA/DAA/DIAA.

3. Supervision of Projects

On page 20 the implementation of a projects supervision chronogram is recommended.

In this respect, we consider that it is not appropriate to implement a pre-established visit chronogram to supervise projects since this would limit the element of surprise and thus allow for the possibilities of a false image presentation.

Nevertheless, when required, such as in the case of the Communal Kitchens, these visits are coordinated with counterparts.

We must also mention the fact that CARE has a working team dedicated exclusively to the PIBA program, constantly visiting and supervising counterparts and projects. As you can well appreciate, it is very problematic and difficult to establish a visiting chronogram considering the extant number of the PIBA project.

Note: During the Exit Conference, it was noted that CARE FFW projects have a limited duration, unlike on-going MOH or other feeding activities. The distribution point changes as the project activity progresses. Hence random visits, of appropriate samples, are considered most appropriate.

4. Internal visits report

We have duly noted your recommendation on page 21 as regards the implementation of project visiting formats.

We are attaching "Communal Kitchens Visit" format which has already been implemented in this activity.

5. Internal reviews

According to page 35 of your draft, it is recommended that CARE Peru take the necessary measures to increase internal revisions in accordance to section 211.5 (c) of AID's Rules and Regulations II.

In this respect, we must mention that Regulation II indicates that internal auditing must be programmed and executed by previous written agreement with USAID-Peru, which has not been the case in the PIBA program.

Nevertheless, CARE-Peru is willing to request USAID-Peru a written agreement in order to comply with this requirement. We emphasize on the fact that CARE-Peru is constantly making supervisory visits to projects, coordinating with counterparts, and effecting monthly food inventories, actions that may well be considered as part of the Internal Auditing program.

Note: Informal internal reviews have been made at the suggestion of the USAID Mission. In the future these reviews will be documented and copied to USAID.

e. Program Publicity

On pages 36 and 37 different actions regarding program publicity are recommended.

We must indicate that we have opportunely distributed posters designed and published by USAID-Peru.

Also, that all donated containers contain necessary information regarding the donating sources.

With reference to the requirement stipulated on section 211.6 (c) of AID's Rules and Regulations II, it can well be mentioned that this action is related to re-containerization of the products for distribution. This is not applicable to the PIBA program since foods are distributed and donated in the original containers originated in USA. In the remote cases where foods have to be re-containerized, appropriate program containers are utilized.

In general, our institution has always attempted to accommodate donors publicity criteria.

Note: During the Exit Conference the issue of security and publicity were addressed.

7. Unutilized foods

On page 38 it is recommended that CARE-Peru provide instructions as to methods in which donated milk should be used.

CARE-Peru, in this specific case, has complied in instructing counterparts of ways in which the donated milk can be utilized. We have provided them with sufficient quantities of posters designed and published by USAID-Peru indicating the way in which milk should be prepared.

Note: It is felt that appropriate use of powdered milk is of common knowledge amongst CARE's beneficiaries.

8. Food storage

On page 39 it is recommended to evaluate warehouses extant at project sites.

We must indicate that storage areas in the projects, specifically in the case of "Communal Kitchens", are temporary storages as the food is stored for immediate consumption. These storage areas cannot be considered as permanent warehouses since the foods are kept for a short period of time for daily consumption.

It must be noted that in the case of the communal kitchens storage, this should not be considered as a general rule within the program since the communal kitchens is one of the distribution methods within the program. This is not the case in the distribution of foods to FFW beneficiaries since they can dispose of the foods they receive as they please.

9. Food control record

On page 40 it is recommended that CARE-Peru maintains a food control in the projects. In this case and in accordance with point 8 above, this should refer only to communal kitchens. CARE-Peru will implement these recommended controls in the communal kitchens under the program.

10. Donation of empty containers

On page 41 it is recommended that CARE-Peru insist with ONAA on the donation of containers to beneficiaries.

Opportunely, CARE-Peru by OP#9218-85 dated 12.11.85, informed ONAA and USAID-Peru on donation procedures of empty containers to beneficiaries. We will insist again with ONAA and counterparts on this request.

Note: This issue was discussed with COP officials on March 26, 1987. An appropriate clause will be inserted in beneficiary agreements to identify the containers as donated and that markings are to be obliterated.

11. Spoiled foods

On page 43 it is recommended that CARE-Peru insist with ONAA that Sanitary Certificates are opportunely obtained.

Unfortunately, this action is beyond CARE-Peru's control. We consider that delays in obtaining these certificates is due to ONAA's bureaucratic red tape procedures as well as lack of funds on hand to obtain these services.

We must mention that in some cases CARE-Peru paid for these services in order for CARE to opportunely have proper documentation.

Note: The event identified by the audit is a rare and unusual occurrence.

We hope to have been able to clear those points detailed in your draft. We want to take advantage of this occasion to thank you for the many activities performed by your staff as well as for the pleasant working relations maintained while the auditing was taking place. We look forward to the audit results and recommendations given us since these actions are oriented to improve programs development under PL480 Title II Commodities in Peru..

Yours very truly,

James Coberly
Director
CARE-Peru

gv

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