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

Audit Report No. 1-527-87-12-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. 1-527-87-12-N, "Audit of the Public Law 480,
Title II Program with Catholic Relief Services in Peru"

This report presents the results of a non-Federal audit of the Public Law 480, Title II Program in Peru operated by Catholic Relief Services (CRS) and its local counterpart organization, Caritas del Peru (Caritas). 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 20, 1986, (2) the system of internal accounting controls established for administering and supervising the project, and (3) compliance by CRS and Caritas with the laws, regulations and agreement provisions to which they are subject in relation to the program.

Arthur Andersen disclaimed an opinion on the commodity statement due to restrictions in the scope of the audit caused by inadequate records and procedures. Their study and evaluation of the system of internal controls disclosed weaknesses in the overall accounting system, physical controls over commodities, and program supervision which result in more than a relatively low risk that errors or irregularities in quantities that could be material in relation to the commodity statement may occur and not be detected within a timely period. They also determined that CRS and Caritas were not in compliance with certain agreement terms applicable to the PL 480, Title II Program. They concluded that the weaknesses in internal controls and reporting procedures result in more than a relatively low risk that transactions not tested were also not in compliance with agreement terms and that fraud or illegal acts, if any, may occur and not be detected within a timely period.

The Arthur Andersen report contains 14 recommendations to improve the CRS/Caritas system of internal controls and 8 recommendations to achieve compliance with agreement terms. We believe that these recommendations will significantly improve CRS/Caritas'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/Peru obtain evidence from Catholic Relief Services in Peru to demonstrate that it has implemented the 14 recommendations to improve the system of internal controls and the 8 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

CATHOLIC RELIEF SERVICES (CRS)
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CARITAS DEL PERU (CARITAS)
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AUDIT OF THE PL 480 TITLE II
PROGRAM - PERU
CATHOLIC RELIEF SERVICES (CRS)
CARI'TAS DEL PERU (CARITAS)

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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 CATHOLIC RELIEF SERVICES (CRS) 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.

CARITAS has operated in Peru since 1954. It handles approximately 45 percent of the total commodities of the PL 480 Title II Program in Peru, through 30 Dioceses located throughout the country. CARITAS distributes wheat flour, corn meal, bulgur, corn-soya milk, non-fat dry milk (NFDM) and soybean oil to approximately 399,000 recipients through four basic food programs: maternal-child health, preschool child feeding, other child feeding (orphanage, day care centers, nurseries, etc.), and food for work.

AUDIT OBJECTIVES AND SCOPE

The overall objectives of our audit were (a) to perform an examination of the commodity statement of CARITAS for the year ended September 20, 1986, which statement is expressed in quantities and not values, (b) to evaluate CARITAS' 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 15, 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 (CARITAS) 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 the CARITAS accounting system and records relating to the activities indicated in point 2 above,
4. Reviewing the CARITAS internal controls related to the physical safeguarding, warehousing, controlling and delivering of commodities to the distribution centers 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 CARITAS and included certain physical inventory test counts,

5. Visiting certain distribution centers 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 CARITAS' commodity statement, expressed in quantities, for the year ended September 20, 1986. However, as noted in our auditors' report dated December 15, 1986, because of the inadequate records and procedures of CARITAS, the scope of our examination was not sufficient to enable us to express an opinion on the commodity statement referred to above.

RESULTS OF AUDIT

1. Commodity statement for fiscal
year 1986

Because of inadequate records and procedures, as more fully described in our report dated December 15, 1986, the scope of our examination was not sufficient to enable us to express an opinion on the commodity statement of CARITAS for the year ended September 20, 1986, expressed in Kilograms.

2. Internal controls over commodities

Our study and evaluation disclosed certain conditions in the system of internal controls of CARITAS in effect during the period of our study, November, 1986, which conditions are more fully described in Section III, that, in our opinion, result in more than a relatively low risk that errors or irregularities in quantities that could be material in relation to the commodity statement may occur and not be detected within a timely period. Those conditions were related to the overall accounting system, physical controls over commodities, and program supervision.

3. Compliance with agreement terms

Our examination revealed that, in our opinion, the cooperating sponsor and its counterpart agency were not in compliance with certain agreement terms. Instances of non-compliance were related to general reporting requirements, use of commodities, distribution of commodities, publicity as an AID program, use of proceeds from sales of containers, eligibility of recipients, disposal of damaged commodities, and reports on losses of commodities.

4. Management comments

Certain comments of CRS and CARITAS management have been incorporated within this document.

Colbridge y Asociados

Lima, Peru,

March 27, 1987.

II. COMMODITY STATEMENT

COLERIDGE Y ASOCIADOS
REPRESENTANTES DE
ARTHUR ANDERSEN & CO.

CATHOLIC RELIEF SERVICES (CRS)

CARITAS DEL PERU (CARITAS)

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 CARITAS DEL PERU (CARITAS) for the year ended September 20, 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 below:

We did not observe the physical inventories taken as of September 20, 1986 and 1985 because those dates were prior to our initial engagement, and the CARITAS records do not permit adequate retroactive verification of inventory quantities. Also, on such dates CARITAS did not take a complete physical inventory of commodities.

As explained in the note to the commodity statement, the quantities of commodities reflected in the beginning and ending balances and as commodities distributed were partially determined based upon estimates and not upon actual historical data.

In our opinion, adequate records and procedures were not maintained to assure that all transactions relating to the receipts, issues, losses and damages of commodities had been properly recorded.

Because of the inadequate records and procedures, as discussed above, the scope of our examination was not sufficient to enable us to express an opinion on the commodity statement referred to above.

Coleridge y Asociados

Lima, Peru,

December 15, 1986.

CATHOLIC RELIEF SERVICES (CRS)
CARITAS DEL PERU (CARITAS)
COMMODITY STATEMENT
FOR THE YEAR ENDED SEPTEMBER 20, 1986
(In Kilograms)

	<u>Total</u>	<u>Wheat flour</u>	<u>Corn meal</u>	<u>Bulgur</u>	<u>Corn- soya milk (C S M)</u>	<u>Non- fat dry milk (N F D M)</u>	<u>Soy- bean oil</u>
BALANCES AS OF SEPTEMBER 20, 1985	979,527	252,540	20,502	369,252	29,773	77,837	229,623
FISCAL YEAR 1986 ACTIVITY:							
Commodities received	17,419,824	7,108,210	-	5,436,253	-	3,359,391	1,515,970
Commodities distributed	(14,531,096)	(5,709,716)	(18,851)	(4,580,994)	(29,499)	(2,758,415)	(1,433,621)
Other	(100,364)	(39,210)	(1,651)	(33,086)	(274)	(21,673)	(4,470)
BALANCES AS OF SEPTEMBER 20, 1986	<u>3,767,891</u>	<u>1,611,824</u>	<u>-</u>	<u>1,191,425</u>	<u>-</u>	<u>657,140</u>	<u>307,502</u>

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

CATHOLIC RELIEF SERVICES (CRS)
CARITAS DEL PERU (CARITAS)
NOTE TO THE COMMODITY STATEMENT
FOR THE YEAR ENDED SEPTEMBER 20, 1986

The accompanying commodity statement reflects the activity of the commodities donated by AID's Title II Program in Peru to CARITAS for the period from September 20, 1985 through September 20, 1986. The bases for the preparation of the commodity statement were as follows:

- a. Beginning and ending balances - Reflect the estimated quantities of commodities available for human consumption at such dates. Such balances were partially determined based upon the actual commodity status reports furnished by the Dioceses, and partially by estimating the beginning and ending balances for those Dioceses that did not furnish their commodity status reports on a timely basis.
- b. Commodities received - Reflect the quantities of commodities donated by AID. The total quantities of commodities received corresponds to the gross quantities reported in the bills of lading, and therefore include losses and/or damages of commodities occurring during the voyages to the Peruvian ports of Callao and Matarani, which losses or damages are reported as "other" in the commodity statement.
- c. Commodities distributed - Corresponds to the estimated quantities of commodities distributed by CARITAS to the following food programs by category:

<u>Category</u>	<u>Commodities distributed</u> (In Kilograms)					
	<u>Wheat flour</u>	<u>Corn meal</u>	<u>Bulgur</u>	<u>Corn-soya milk (C S M)</u>	<u>Non-fat dry milk (N F D M)</u>	<u>Soybean oil</u>
Maternal-child health	1,093,250	-	1,027,600	-	791,959	309,257
Preschool child feeding	754,450	-	254,606	8,000	257,490	153,144
Other child feeding	877,150	-	252,150	10,000	268,097	168,097
Child day nurseries	410,000	-	170,000	11,499	182,000	126,000
Food for work	2,574,866	18,851	2,876,638	-	1,258,869	677,123
	-----	-----	-----	-----	-----	-----
Total	5,709,716	18,851	4,580,994	29,499	2,758,415	1,433,621
	=====	=====	=====	=====	=====	=====

The above quantities were determined based upon actual commodity status reports (when available) or estimates when not available.

- d. Other - Corresponds to commodities lost and/or damaged during the voyages to Peru, during their handling in the Peruvian ports, during the transportation of the commodities to the Dioceses warehouses, or while stored in the Dioceses warehouses.

CATHOLIC RELIEF SERVICES (CRS)

CARITAS DEL PERU (CARITAS)

MANAGEMENT'S COMMENTS ON COMMODITY STATEMENT

Refer to letter from management, included as Appendix 1.

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III. INTERNAL CONTROLS

COLERIDGE Y ASOCIADOS
REPRESENTANTES DE
ARTHUR ANDERSEN & CO.

CATHOLIC RELIEF SERVICES (CRS)

CARITAS DEL PERU (CARITAS)

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 the internal controls over the quantities of commodities handled by CARITAS DEL PERU (CARITAS) on behalf of AID in effect during the period of our study, November, 1986. For the purpose of our study, we classified the significant internal control procedures over the commodities into the following categories: (a) arrival in Peru, (b) storage, (c) handling, (d) shipment to distribution centers, (e) ultimate distribution of donated commodities from the distribution centers, 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.

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 CARITAS 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 recorded properly to permit the preparation of the commodity statement and other reports in accordance with 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.

Our study and evaluation disclosed certain conditions in the internal controls of CARITAS during the period of our study, November, 1986, which are described in this section that, in our opinion, result in more than a relatively low risk that errors or irregularities in quantities that could be material in relation to the commodity statement may occur and not be detected within a timely period.

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Report on Accounting System

Our review of the accounting system of CARITAS relating to commodities disclosed the following conditions that, in our opinion, result in more than a relatively low risk that errors or irregularities in quantities that could be material in relation to the commodity statement may occur and not be detected within a timely period:

1. Certain summary reports (commodity status reports) prepared by the Dioceses were not furnished to CARITAS Lima on a timely basis.
2. As a result of the matter indicated in item 1. above, the quantities of commodities reflected in the beginning and ending balances and the caption "Commodities distributed" in the quarterly commodity statements prepared by CARITAS Lima, which are the basis for preparing the annual commodity statement, were partially determined based upon estimates, and accordingly do not reflect the actual activity for the year ended September 20, 1986.
3. The ending balances reported by the Dioceses were not reconciled to the ending balances reflected in the commodity statement prepared by CARITAS Lima.

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4. In our opinion, adequate records and procedures were not maintained to assure that all transactions related to the receipts, issues, losses and/or damages of commodities had been properly recorded.

Also, in our opinion, adequate records and documents were not being maintained to support the transactions related to the sales and physical controls of empty bags and/or containers.

Report on Physical Controls Over Commodities

Our review of the CARITAS procedures and physical controls over storage and handling of commodities, once received in the CARITAS storage facilities, disclosed the following conditions that, in our opinion, result in more than a relatively low risk that errors or irregularities in quantities that could be material in relation to the commodity statement may occur and not be detected within a timely period:

1. Ending balances of commodities reflected in the commodity statement were not supported by physical inventory listings,
2. Differences between quantity amounts as reported in the commodity statements and inventory control records were not reconciled,

3. No written evidence was maintained of physical inventories taken at warehouses,
4. Balances reflected in the warehouse Kardex cards were not reconciled to physical inventory counts, and
5. There was a lack of knowledge of inventory control procedures.

We did not visit ports of entry to observe the arrival and discharge of commodities, their clearance through customs, and the shipment to CARITAS' 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 CARITAS; visits to the Dioceses of Lima, Cajamarca, Arequipa and Puno; visits to the storage facilities and distribution centers located in such Dioceses; and inquiries made of the CARITAS representatives and program recipients disclosed the following conditions that, in our opinion, result in more than a relatively low risk

that errors or irregularities in connection with the program may occur and may not be detected within a timely period due to lack of effective supervision:

1. The commodity statement reports were not based upon individual reports submitted to CARITAS by the various Dioceses,
2. Ending balances of commodities were not supported by physical inventory listings,
3. Certain CARITAS internal procedures were not being followed,
4. Certain Dioceses did not have copies of AID Regulation Eleven,
5. Certain commodities were issued to non-approved recipients,
6. In certain cases supervision visits were not made to the distribution centers, and
7. Project development progress reports were not prepared in certain cases.

Cateridge y Asociados

Lima, Peru,

December 15, 1986.

CATHOLIC RELIEF SERVICES (CRS)
CARITAS DEL PERU (CARITAS)
AUDIT FINDINGS AND RECOMMENDATIONS

Procedures Followed to Prepare
the Commodity Statements

Condition -- Following are certain matters that came to our attention as a result of our review of the commodity statement for the year ended September 20, 1986:

- a. The beginning and ending balances, and the quantities included in the caption "Commodities distributed" reflected in the quarterly commodity statements reported to USAID/ Peru were partially determined based upon estimates and not upon the actual inventory control reports furnished by the individual Dioceses to CARITAS Lima, since certain reports were not submitted to CARITAS Lima on a timely basis.
- b. Also, reconciliations were not made between the quarterly commodity statements and the actual inventory control reports as eventually reported by the Dioceses to CARITAS Lima. Following is an example:

Wheat flour (In Kilograms)

	Beginning	Commodities	Ending
<u>Second Quarter, 1986</u>	<u>balance</u>	<u>distributed</u>	<u>balance</u>
Per commodity statement	52,888	1,601,223	600,965
Per inventory control reports	681,200	1,256,550	1,141,600
Differences	(628,312)	344,673	(540,635)
<u>Fourth Quarter, 1986</u>			
Per commodity statement	20,965	1,734,493	1,611,824
Per inventory control reports	1,019,150	1,551,700	1,305,350
Differences	(998,185)	182,793	306,474

c. As a result of the matters indicated above, the quantities of commodities reflected (i) in the beginning and ending balances and (ii) as "Commodities distributed" in the commodity statement presented in Section II represent estimates and not actual data.

Criteria -- The commodity statement should accurately reflect all transactions of commodities, and should be prepared from valid supporting documentation.

Cause -- Inventory control reports were not submitted by the various Dioceses to CARITAS Lima on a timely basis.

Effect -- Reliance cannot be placed on the reasonableness of the commodity statement.

Recommendation -- USAID/Peru should require CARITAS to revise its accounting and reporting systems; establish controls; train its personnel in the revised systems; and establish detailed follow-up procedures regarding compliance.

Physical Inventories of Commodities

Condition -- Our visits to the Dioceses warehouses of Lima, Cajamarca and Arequipa revealed no written evidence was maintained of the inventories performed by CARITAS' personnel at those warehouses.

Criteria -- The ending balances of commodities reported in the commodity statements should be adequately supported by physical inventories.

Cause -- There was a lack of knowledge of internal control techniques by the CARITAS personnel.

Effect -- There was no basis to determine whether or not the ending balances reported by the Dioceses in their monthly inventory control reports corresponded to actual commodities on hand.

Recommendation -- USAID/Peru should require CARITAS to document the results of physical inventory counts performed at the warehouses.

Results of Inventory Test Counts

Performed at the Diocese of
Puno Warehouse

Condition -- Physical quantities of commodities stored at the Diocese of Puno warehouse did not agree with the warehouse kardex records. For example, we noted differences between physical quantities and kardex quantities of 307 bags of non-fat dry milk, 240 sacks of corn soya milk, and 33 sacks of wheat flour.

Criteria -- Warehouse kardex records should agree with the existing quantities of commodities stored at the warehouse.

Cause -- In certain cases, the Diocese made partial deliveries of commodities to the distribution centers; however, the individual warehouse kardex cards were adjusted to reflect total (rather than partial) distribution.

Effect -- Control over the physical distribution of commodities was lost.

Recommendation -- USAID/Peru should require CARITAS to instruct the Diocese of Puno to record in the warehouse kardex cards only the actual physical movement of commodities.

Errors in the Accounting Records
and Reports Maintained at the
Cajamarca Diocese

Condition -- As a result of our review of the accounting records and reports maintained by the Diocese of Cajamarca we noted the following:

- a. The monthly balances reflected in the warehouse kardex cards did not agree with the monthly inventory control reports submitted to CARITAS Lima, due to clerical errors. Also, such differences were not reconciled or investigated.
- b. The daily issues of commodities from the Diocese warehouse were posted on the warehouse kardex cards for the total quantity of commodities disbursed during the day, and not according to each individual disbursement.
- c. Certain reports (such as the cash movement report which reflects the proceeds received from the sales of empty bags and/or containers and the cash disbursements made from such receipts during the month) had clerical errors or were not fully completed.

Criteria --

- a. Periodic reconciliations should be prepared between the physical quantities of commodities on hand and the amounts reflected in the accounting records,
- b. The CARITAS' operations manual should require that the issue forms be posted to the warehouse kardex cards on an item by item basis, and,
- c. Reports or documents issued by the Diocese should be reviewed for accuracy prior to approval and submission to CARITAS Lima.

Cause -- There was a lack of internal control techniques.

Effect -- No reliance could be placed on the overall reasonableness of the records and reports maintained by the Diocese.

Recommendation -- USAID/Peru should require CARITAS to revise its internal control procedures, conduct training seminars relating to such revised procedures, and follow-up on the implementation thereof.

Signing of the "Receipt Notes"

by Representatives of the

Distribution Centers

Condition -- At the Diocese of Puno the representatives at the distribution centers signed receipts for commodities before they were actually received.

Criteria -- Receipts for commodities received by representatives of the distribution centers should only be signed when such commodities have been actually received.

Cause -- There was a lack of knowledge of inventory control procedures.

Effect -- Control over the quantities of commodities physically distributed was lost.

Recommendation -- USAID/Peru should require CARITAS to revise its internal control procedures, conduct training seminars relating to such revised procedures, and follow-up on the implementation thereof.

Physical Controls Over the Soybean

Oil Stored at the Diocese of

Puno Warehouse

Condition -- The Diocese of Puno warehouse received soybean oil in both cans and in boxes containing five and six gallons of oil, respectively. However each can and box was controlled as a unit in the warehouse kardex cards and not in gallons.

Criteria -- Similar items of different measure should be controlled separately on warehouse kardex cards.

Cause -- There was a lack of knowledge of inventory control procedures.

Effect -- Control over commodities on hand and physically distributed was lost.

Recommendation -- USAID/Peru should require CARITAS to revise its internal control procedures, conduct training seminars related to such revised procedures, and follow-up on the implementation thereof.

Inadequate Use of Issue Forms

Condition -- During our visit to the Diocese of Arequipa we found that the commodity issue forms imprinted with the AID emblem "donated by the people of the United States of America" were also used to deliver commodities donated to CARITAS by another entity.

Criteria -- The commodity issue forms with AID's emblem should only be used for deliveries of the commodities donated by AID.

Cause -- Only one type of issue form was used for all issues of commodities.

Effect -- Commodities donated by other agencies might be identified as AID donated.

Recommendation -- USAID/Peru should require CARITAS to maintain and use different commodity issue forms for commodities donated to CARITAS by other entities.

Inventory Control Reports of Containers

Condition -- Different criteria were followed by the different Dioceses to prepare the quarterly inventory control reports for empty containers. For example, the Diocese of Lima reported the movement of only empty containers; whereas the Diocese of Puno reported the movement of both empty and full containers under its control.

Criteria -- Inventory control reports for containers should reflect the activity of only empty containers.

Cause -- There was a lack of coordination and communication between CARITAS del Peru and the Dioceses.

Effect -- Control over the number of empty containers was lost.

Recommendation -- USAID/Peru should require CARITAS del Peru to communicate to the Dioceses the criteria to be followed in preparing future empty container reports.

Supervision of Programs

Condition -- We found that the Dioceses of Puno, Cajamarca and Arequipa did not have a pre-planned, approved schedule for visiting their distribution centers. However, we were advised that CARITAS del Peru does have such a schedule.

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Criteria -- Having a pre-planned, approved schedule which would indicate, among other things, the timing and specific distribution centers or locations to visit, should improve the supervision function, and provide a more effective control of the program.

Cause -- The Dioceses did not implement the scheduling of pre-planned, approved supervisory visits to distribution centers.

Effect -- There is a risk that certain visits to the distribution centers could be omitted.

Recommendation -- USAID/Peru should require CARITAS del Peru to implement an approved annual or semi-annual pre-planned visiting schedule for each Diocese, which would describe, among other things, the distribution centers or locations to be reviewed, the work to be performed, and the estimated timing of the visits.

Visits to the Distribution Centers

Condition -- Supervisors of the Diocese of Puno did not perform periodic visits to the distribution centers.

Criteria -- Supervisors should visit the distribution centers on a periodic basis in order to evaluate whether the projects are meeting specific program objectives.

Cause -- The Diocese evaluates each distribution center based upon verbal reports obtained from representatives of the distribution centers or the priest in the community where the project is being executed.

Effect -- Program objectives, if not being achieved, may not be known by CARITAS on a timely basis.

Recommendation -- USAID/Peru should require CARITAS to perform periodic supervisory visits of distribution centers and to report the results of such visits in writing.

Delivery Program for the Distribution
of Commodities

Condition -- During our visit to the Diocese of Puno we noted that such Diocese did not have a delivery program for making monthly deliveries of commodities to the distribution centers.

Criteria -- The CARITAS operations manual recommends the use of a monthly delivery program document to control the quantities of commodities delivered and to be delivered during the month.

Cause -- The Diocese was not complying with the CARITAS operations manual and CARITAS was not enforcing such compliance.

Effect -- There was a risk that required deliveries of commodities to distribution centers would not be made.

Recommendation -- USAID/Peru should require CARITAS del Peru to instruct the Diocese of Puno to comply with its procedures, or to justify a different system if more appropriate.

Control over the Commodities to be

Received by the Dioceses

Condition -- We noted that the Dioceses did not maintain a control of the total quantities of commodities assigned to them by CARITAS del Peru by means of the Event 500 document. Without such document it is not possible to readily determine whether all the commodities assigned had been received and to quickly determine the future balances to be received under the program.

Criteria -- The Dioceses should receive the commodities assigned to them according to the approved annual distribution plan (Event 500 document).

Cause -- The Dioceses that we visited had no knowledge of the existence of the above report, Event 500.

Effect -- The Dioceses were not using the existing Event 500 document form to assist them in their program operation.

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Recommendation -- USAID/Peru should require CARITAS to instruct each Diocese to utilize the Event 500 document to control the commodities assigned to them and the quantities received to date, in order to perform a timely proper follow-up of the commodities not yet received.

Additional Information Required to
be Reported to Lima

Condition -- We noted that the Dioceses of Cajamarca and Arequipa were not reporting on a monthly basis to CARITAS del Peru the following data:

- Number of distribution centers served during the month,
- Number of families or recipients served during the month, and
- Quantity of commodities distributed by program category.

Criteria -- The CARITAS del Peru operations manual provides that this information be submitted by the Dioceses to CARITAS on a monthly basis.

Cause -- The Dioceses lacked knowledge of the CARITAS del Peru internal procedures.

Effect -- Lack of timely submission of statistical information may not permit an adequate evaluation of the progress of the food programs.

Recommendation -- USAID/Peru should require CARITAS del Peru to comply with its internal procedures.

Applications and Food Support Agreements

Condition -- During our review we noted the following:

- a. At the Diocese of Puno the food for work projects were not covered by a signed agreement between CARITAS and the distribution centers. Also, certain required applications (Event 200 document) were not fully completed.
- b. The Diocese of Puno did not require that food support agreements be renewed each year.
- c. At the Diocese of Arequipa the food support agreements had no evidence of having been reviewed and approved by the person responsible at the Diocese (Examples include the maternal-child health program of "Inmaculada Concepción", and the food for work program "Desarrollo Comunal Selva Alegre").
- d. At the Dioceses of Cajamarca and Arequipa certain receipts had not been signed by the program recipients and by Diocese personnel.

Criteria -- Section 211.5 (e) of AID Regulation Eleven provides that the cooperating sponsor shall have the responsibility to assure that the beneficiaries meet the requirements to receive the food in accordance with the terms and conditions of the food for peace agreement.

Cause -- The Dioceses were not complying with established procedures.

Effect -- The program objectives may not be achieved.

Recommendation -- USAID/Peru should require CARITAS to comply with established procedures.

CATHOLIC RELIEF SERVICES (CRS)

CARITAS DEL PERU (CARITAS)

MANAGEMENT'S COMMENTS ON INTERNAL CONTROLS

Refer to letter from management, included as Appendix 1.

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IV. COMPLIANCE WITH AGREEMENT TERMS

COLERIDGE Y ASOCIADOS
REPRESENTANTES DE
ARTHUR ANDERSEN & CO.

CATHOLIC RELIEF SERVICES (CRS)

CARITAS DEL PERU (CARITAS)

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 CARITAS DEL PERU for the year ended September 20, 1986, expressed in Kilograms. Our examination was made in accordance with generally accepted auditing standards and the U. S. 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 15, 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. As noted throughout this document, in our opinion, the overall system of internal controls and reporting procedures are deficient and, accordingly, there is more than a relatively low risk that items not tested by us may not have been in compliance with AID Regulation Eleven.

Calveridge y Asociados

Lima, Peru,

December 15, 1986.

CATHOLIC RELIEF SERVICES (CRS)

CARITAS DEL PERU (CARITAS)

GENERAL REPORTING REQUIREMENTS

As part of our review of the accounting system and our examination of the CARITAS commodity statement for the year ended September 20, 1986, expressed in kilograms, we have reviewed the records and reports required by AID Regulation Eleven. The results of our review disclosed the following condition that, in our opinion, indicates that CARITAS has not complied with AID Regulation Eleven relating to the general reporting requirements.

As more fully described in the note to the commodity statement, the beginning and ending balances reflected in the commodity statement may not represent the physical commodities actually on hand at such dates, and the amounts included in the caption entitled "Commodities distributed" is based, in part, on estimates.

CATHOLIC RELIEF SERVICES (CRS)

CARITAS DEL PERU (CARITAS)

USE OF COMMODITIES

As a result of our visits to certain distribution centers and warehouses at Lima, Cajamarca, Arequipa and Puno; our review of the accounting records and other documents relating to certain projects; and our inquiries made to certain representatives of CARITAS and the program recipients, we have concluded that CARITAS has not complied in certain instances with the AID regulations regarding use of commodities since CARITAS has used certain commodities received from AID for purposes other than those established in AID Regulation Eleven and its approved food program in Peru.

CATHOLIC RELIEF SERVICES (CRS)

CARITAS DEL PERU (CARITAS)

DISTRIBUTION OF COMMODITIES

As a result of our review of the distribution process, our visits to certain distribution centers, our review of the accounting records and other documents related to the distribution process, and our inquiries of representatives of CARITAS and program recipients, we noted that a portion of the commodities had not been distributed to program recipients according to the approved plan. Thus we are not in a position to conclude whether or not CARITAS 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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CATHOLIC RELIEF SERVICES (CRS)

CARITAS DEL PERU (CARITAS)

PUBLICITY AS AN AID PROGRAM

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

Also, through our inquiries of program recipients and as a result of our visits to certain distribution centers in Lima, Cajamarca, Arequipa and Puno, 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 CARITAS management that the way in which the initial questions and the follow-up questions were raised could have influenced the responses of the recipients.

CATHOLIC RELIEF SERVICES (CRS)

CARITAS DEL PERU (CARITAS)

USE OF PROCEEDS FROM SALES OF CONTAINERS

As a result of our visits to the Dioceses of Lima, Cajamarca, Arequipa and Puno; our visits to certain distribution centers; our review of the accounting records and controls over empty containers; and our inquiries of representatives of CARITAS and program recipients, we have concluded that CARITAS has used certain proceeds from sales of empty containers for purposes other than those established by AID Regulation Eleven.

CATHOLIC RELIEF SERVICES (CRS)

CARITAS DEL PERU (CARITAS)

ELIGIBILITY OF RECIPIENTS

As a result of (a) our review of the procedures and related documentation used by CARITAS to evaluate and determine the eligibility of distribution centers and/or program recipients, (b) our visits to certain distribution centers, and (c) our inquiries of representatives of CARITAS and program recipients, we have concluded that CARITAS made distributions to certain recipients that did not qualify under the criteria of eligibility established by AID Regulation Eleven and its food program approved by USAID/Peru.

CATHOLIC RELIEF SERVICES (CRS)

CARITAS DEL PERU (CARITAS)

DISPOSAL OF DAMAGED COMMODITIES

As part of our review of the accounting system and examination of the commodity statement of CARITAS for the year ended September 20, 1986, expressed in kilograms, we have reviewed the procedures, controls and records related to the disposal of damaged commodities as provided by AID regulations. Since all the damaged commodities were not reported to USAID/ Peru, we have no basis to conclude whether or not CARITAS has disposed of the damaged commodities according to the criteria set forth in AID Regulation Eleven.

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CATHOLIC RELIEF SERVICES (CRS)

CARITAS DEL PERU (CARITAS)

REPORTS ON LOSSES AND MISUSES OF COMMODITIES

As part of our review of the accounting system and physical controls over commodities and our examination of the commodity statement of CARITAS for the year ended September 20, 1986, expressed in kilograms, we have reviewed the reports on losses of commodities. The results of our review indicate that CARITAS had not reported all the losses of commodities occurring during the fiscal year ended September 20, 1986 to USAID/Peru, as required by AID Regulation Eleven.

Also, as a result of the weaknesses in the internal accounting controls system, as more fully described elsewhere in this document, we have no basis to conclude whether or not there have been misuses of commodities that have not been reported by CARITAS to USAID/Peru, as required by AID Regulation Eleven.

CATHOLIC RELIEF SERVICES (CRS)

CARITAS DEL PERU (CARITAS)

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. However, as noted throughout this document, in our opinion, the overall systems of internal controls and reporting procedures are deficient and, accordingly, there is more than a relatively low risk that fraud or illegal acts, if any, could have occurred and not been detected within a timely period.

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CATHOLIC RELIEF SERVICES (CRS)
CARITAS DEL PERU (CARITAS)
AUDIT FINDINGS AND RECOMMENDATIONS

Incomplete Understanding of

AID Regulation Eleven

Condition -- Copies of AID Regulation Eleven, which regulates the Title II program activities, were not fully communicated to and understood by CARITAS' representatives at the Arequipa and Cajamarca Dioceses since, we were advised, copies were not available.

Criteria -- CARITAS representatives should have a complete understanding of the general rules of AID Regulation Eleven so as to be able to comply with the procedures and regulations established therein.

Cause -- The Dioceses had not received copies of AID Regulation Eleven from CARITAS.

Effect -- There was a risk that decisions could be made or procedures followed contrary to the requirements provided by AID Regulation Eleven.

Recommendation -- USAID/Peru should require CARITAS to conduct meetings with the representatives of the Dioceses to clearly communicate the objectives of the Title II Program under their jurisdiction, and to provide them with a clear understanding of AID Regulation Eleven. Also, copies of AID Regulation Eleven should be distributed to each of the representatives of the Dioceses.

During the exit conference representatives of CARITAS indicated that they have developed the equivalent of AID Regulation Eleven which has been distributed to the Dioceses. Such document was not furnished to the auditors during their field visit. USAID/Peru should review such equivalent document to determine if it does, in fact, comply with all of the requirements of AID Regulation Eleven.

General Reporting Requirements

Condition -- We noted that the Arequipa Diocese had not prepared supervisory reports for the last three quarters of fiscal year 1986 of their visits to the distribution centers under their control.

Criteria --Section 211.10(b) of AID Regulation Eleven provides that the voluntary agency shall submit reports relating to progress and problems in the implementation and operation of the program, as well as inspection reports.

Cause -- Procedures were not complied with in accordance with AID Regulation Eleven.

Effect -- The program or project objectives, if not being achieved, are not known by USAID/Peru.

Recommendation -- USAID/Peru should coordinate with CARITAS to insure that CARITAS provides USAID/Peru on a timely basis with all reports required by AID Regulation Eleven.

Use of Proceeds from Sales of
Empty Bags and/or Containers

Condition -- We noted the following:

- a. At the Diocese of Puno, part of the proceeds from the sales of empty bags were used for the payment of salaries and other costs not directly related with the Title II Program costs, and such funds are not segregated,
- b. The Diocese of Cajamarca did not have adequate control over the physical movement of empty bags or containers,
- c. At the Diocese of Arequipa the proceeds from the sales of empty containers were mixed with other funds obtained by the Diocese, and
- d. At certain Dioceses where the empty containers were sold for commercial purposes, the U. S. markings were not removed prior to their sale. There is not a clear definition of the phrase "for commercial purposes".

Criteria -- Section 211.5 (i) of AID Regulation Eleven provides that the cooperating sponsor should use the proceeds from sales of empty bags for program expenses to carry out the objectives of the program for which the commodities were furnished. Therefore, there should be an effective control over the funds received and their subsequent use. Also Section 211.5 (h) of AID Regulation Eleven provides that when empty bags are to be used commercially, the cooperating sponsor must arrange for the removal of the U. S. markings prior to such use.

Cause -- There was a lack of understanding of what is meant by the phrase "for commercial purposes".

Effect -- The Dioceses did not control the proceeds that were collected as a result of sales of empty bags or containers, proceeds from sales of empty bags or containers were used for purposes other than the payment of Title II Program costs, and stamped bags could be used for unauthorized purposes.

Recommendation -- USAID/Peru should require CARITAS (a) to instruct the Dioceses of the above AID regulation, (b) to establish procedures to control separately the proceeds received from the sales of empty bags; and (c) to establish procedures relating to the removal of U.S. markings. In addition, USAID/Peru should define the phrase "for commercial purposes" and so advise CARITAS.

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Publicity as an AID Program

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

- a. During our visits to certain distribution centers and through inquiries of program recipients, we noted that certain recipients had no knowledge of the origin of the commodities. They believed that such commodities were donated by CARITAS;
- b. At the distribution centers 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;
- c. The distribution listings signed by the recipients that received the commodities did not include any inscriptions containing the above information; and
- d. During the exit conference CARITAS representatives indicated that they had received a waiver from the publicity requirements.

Criteria -- Section 211.5 (g) of AID Regulation Eleven provides that: (a) to the maximum extent practical, 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) individual identification cards of recipients shall, insofar as practicable, be imprinted with such publicity information.

Cause -- The waiver for non-publicity is not known throughout CARITAS and USAID/Peru.

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

Recommendation -- USAID/Peru should require CARITAS to evaluate the best way to give publicity to the program, considering the security environment within Peru and prior understanding reached by CARITAS with USAID/Washington, and to implement such publicity to the maximum extent possible. Also, unless a specific waiver is obtained, the distribution listings should be imprinted with the information required by Section 211.5 (g) of AID Regulation Eleven. The waiver should then be distributed to all interested parties.

Lack of Control Records over
Commodities at the Distri-
bution Centers

Condition -- We noted that the distribution centers located in Lima (10 out of 10 selected); Puno (10 out of 10 selected); and Arequipa (9 out of 10 selected) did not maintain records of the commodities received and subsequently distributed to final recipients. Also we were advised that the Dioceses did not require the distribution centers to maintain the above records.

Criteria -- Section 211.10 (a) of AID Regulation Eleven provides that adequate records should be maintained over commodities.

Cause -- Personnel at the distribution centers lacked knowledge of this requirement.

Effect -- There were inadequate controls over commodities.

Recommendation -- USAID/Peru should require CARITAS to train the responsible program recipients to maintain adequate records and controls over the commodities received.

Reports of Lost or Damaged

Commodities

Condition -- Although the losses or damages of commodities occurring during the transportation to the Dioceses were reported to CARITAS, through the monthly inventory control reports, such losses or damages were not reported to USAID/Peru for amounts less than US\$300 based upon instructions from USAID/Peru.

Criteria -- Section 211.9 of AID Regulation Eleven provides that any lost or damaged commodities shall be reported through a copy of the claim and related documents to USAID, which shall include all circumstances relating to the loss and/or damage.

Cause -- CARITAS did not comply with the AID regulation concerning the reporting to AID/Peru of all lost or damaged commodities, as instructed by USAID/Peru.

Effect -- USAID/Peru does not have data relating to claims under US\$300.

Recommendation -- USAID/Peru should require CARITAS to be notified of all losses or damages occurring within its jurisdiction, and to so report to USAID/Peru as required by AID Regulation Eleven. At the exit conference CARITAS representatives indicated that such data is readily available and can be readily furnished to USAID/Peru, if so requested by USAID/Peru.

Distribution of Commodities to

Non-Approved Distribution Centers

Condition -- During our visits to the Dioceses of Lima and Arequipa, we noted that such Dioceses were distributing commodities to certain distribution centers which centers were not included in the listing of distribution centers approved by CARITAS.

Such unauthorized distribution centers may not have qualified under the criteria for eligibility. We were advised that the centers distributed the commodities to people with mental problems and with tuberculosis (in Lima), school dining rooms, and to a project site for the construction of a church and a police station (in Arequipa).

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Criteria -- Section 211.5 (e) of AID Regulation Eleven provides that the voluntary agency shall be responsible for determining that the distribution centers to whom they distribute commodities are eligible. Also, the selected projects should qualify according to the categories of food programs included in the voluntary agency's Annual Operating Plan approved by USAID.

Cause -- There was no compliance with AID regulations.

Effect -- There was distribution of food to unauthorized recipients.

Recommendation -- USAID/Peru should require CARITAS to comply with AID regulations.

Distribution of Commodities to
Ineligible Recipients

Condition -- During our visits to the feeding centers of "Asociación de Damas de la Caridad San Vicente de Paul", at Cajamarca and to the "Comedor Infantil Alto Gráfico" at Arequipa, which have eat-in food programs for pre-school children, we noted that certain program recipients were of school age. CARITAS does not have an approved program for school age children.

Criteria -- Section 211.2 (k) of AID Regulation Eleven defines the maternal and pre-school feeding programs as programs conducted for women of child bearing age, for mothers with pre-school children, and for children below the usual enrollment age for the primary grade in the public schools.

Cause -- There was no compliance with AID regulations.

Effect -- The food was distributed to ineligible recipients.

Recommendation -- USAID/Peru should require CARITAS to comply with AID regulations.

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CATHOLIC RELIEF SERVICES (CRS)

CARITAS DEL PERU (CARITAS)

MANAGEMENT'S COMMENTS ON COMPLIANCE WITH AGREEMENT TERMS

Refer to letter from management, included as Appendix 1.

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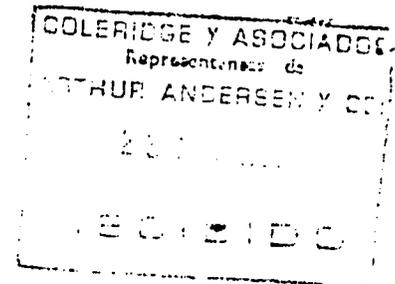


APPENDIX 1

CATHOLIC RELIEF SERVICES
JR. ENRIQUE TORRES S. Nº 146
LIMA.
TELEFONOS: 239040 - 238897
240376
TELEX: 25409 PE PB LAM B

March 23, 1987

Julio Vaysest
Coleridge and Associates
Casilla 1038
Lima 1.-



Dear Mr. Vaysest:

I refer to the results of your audit made with the PL 480 Title II Program sponsored by Catholic Relief Services in conjunction with Caritas del Peru. I can certainly understand the difficulty for you in completing the overall task of auditing the entire Title II program given the complexity of the Peruvian context and the diverse nature of the many private voluntary agencies participating in the program. Nevertheless, I believe that the results of this audit present a misleading picture of the actual situation of the CRS/Caritas program, particularly in the following areas.

1. The report states that an opinion on the commodity statement could not be given because of inadequate records and procedures maintained as related to all transactions regarding the receipts and issues of commodities. (p.8) However, the only specific observations made are that the commodity statement reports are not based on individual reports submitted by the various dioceses and that the ending balances of commodities are not supported by physical inventory listings. In this regard during 1986 an agreement was reached between CRS and Caritas, with approval of AID, that all commodity receipts, distributions and ending balances should be based directly on the "control de existencia" forms and adjustments made only for commodities in transit and port/central warehouse balances.

John Conroy, CRS participated in the July-Sept 1986 commodity status report with Caritas del Peru personnel and work papers were sent to CRS/NY for confirmation of compliance under these terms. Caritas has been advised to retain work papers relating to these reports for subsequent verification and this has been done for the July-Sept 1986 and Oct-Dec. 1986 commodity status reports. Thus action has already been taken to correct any inaccuracies in records and procedures, which may be verified upon examination of these two reports.

Regarding the lack of a reconciliation of commodities at the diocesan level, in field supervisory inspections to seven diocesan programs over the last six months, covering over 65% of the total program volume, Jose Maguiña, CRS, has found only one instance of disagreement between physical inventory listings and commodity listings. This difference was reconciled by food in transit at the time of the visit. This may be verified by the field visit reports available in our offices and routinely sent to Caritas del Peru. Therefore, in our opinion, this factor does not constitute either inadequate records or procedures, and any problems observed at the time of the audit were exceptions. Caritas del Peru has reported to us that the problems stated specifically for the Diocese of Puno have been reconciled.

2. The section related to the physical control of commodities also lists a series of recommendations regarding the situation in particular diocesan programs at the time of the audit. It is difficult to assess the seriousness of these observations since the audit report does not substantiate the frequency of their occurrence on an overall program level or the magnitude of the problem created by these occurrences for a specific diocesan program. Unless further documentation is provided to show substantial and material inaccuracies of the existing procedures, many of these recommendations could be discussed with the diocesan program affected rather than being included as a formal audit recommendation. This would apply to the draft recommendations on pages 25, 27, 28, 29, 30, 31, 32, 33, 34, 36 and 38.

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3. In the Section relating to Compliance with Agreement Terms, similar difficulties are found. The lack of information regarding frequency between dioceses and the magnitude of the problem within a diocesan program, fails to document substantial or material problems. There are also several misunderstandings on the part of the auditing team related to what compliance with agreement terms constitutes. In our opinion, such is the case for the recommendations listed on pages 52, 54, 56, 58 and 59.
4. An additional problem with the audit recommendations is that they are presented in such general form that it leaves uncertainty as to when a program would be in compliance with AID regulations. The final audit report should clarify and provide more specific guidelines for compliance.

We look forward to the meeting with representatives of your audit team, AID and Caritas del Peru in order to discuss these and other observations regarding the audit. I am confident that many of these issues can be cleared up at that time.

Sincerely,

Christine Tucker

Christine Tucker
Program Director

CT/cr.

cc: Enrique León, Caritas
Alan Davis, AID

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