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AUDIT OF
P.L. 480 TITLE II PROGRAM IN MOROCCO

Audit Report No. 7-608-90-03

November 28, 1989

UNITED STATES OF AMERICA
AGENCY FOR INTERNATIONAL DEVELOPMENT
OFFICE OF THE REGIONAL INSPECTOR GENERAL FOR WEST AFRICA

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November 28, 1989

MEMORANDUM FOR: Charles W. Johnson, Director, USAID/Morocco

FROM: Paul E. Armstrong, RIG/A/Dakar

SUBJECT: Audit of P.L. 480 Title II Program in Morocco - Audit Report No. 7-608-90-03

The Office of the Regional Inspector General for Audit, Dakar, has completed the subject review. Five copies of the audit report are enclosed.

The audit identified some serious and long-standing management deficiencies one of which has been unchallenged and virtually institutionalized for several years. Corrective actions as recommended in the report should considerably improve operating efficiency, conserve scarce A.I.D. resources and demonstrate the resolve of the U.S. Government to deal firmly with widespread disregard of contractual agreements by the host country government.

We carefully considered USAID/Morocco's response to our draft audit report. Regrettably, however, the Mission's response did not indicate a willingness to correct the major problems reported and was reluctant even to acknowledge the seriousness of the deficiencies. The Mission also suggested that almost eighty percent of the report be altogether deleted. We are unable to accept this suggestion because to do so would be to whitewash significant issues raised by the audit. However, we have incorporated the Mission's comments in appropriate sections of the report and included them in their entirety in Appendix 1.

This report contains six recommendations for USAID/Morocco's action. Please advise within 30 days of actions taken to implement the recommendations. I appreciate the cooperation and courtesy extended to my staff during the audit.

AUDIT OF
P.L. 480 TITLE II PROGRAM IN MOROCCO

EXECUTIVE SUMMARY

A.I.D. has administered P.L. 480 Title II programs in Morocco since 1957. The current program was initiated in Fiscal Year 1987 to distribute food to indigent Moroccans, improve their earning potentials and strengthen the Moroccan Government's institutional capabilities to manage food distribution projects. The U.S. Government agreed to donate approximately $55 million of food commodities, a portion of which was to be monetized to finance project expenditures. Three Moroccan government agencies were responsible for implementing the program under the overall guidance and monitoring of a U.S. private voluntary organization, the Catholic Relief Services. It was estimated that the project would benefit 985,300 Moroccans.

The Office of the Inspector General performed an audit of The P.L. 480 Title II Program in Morocco. The audit focussed on processing of in-country claims for Title II commodity losses, sales and expenditures under the monetization plan, internal controls over storage, transportation and distribution of the Title II commodities, and compliance with applicable regulations and agreements.

The audit highlighted several major problems which are summarized below.

- Efforts made by the Catholic Relief Services to recover claims from the Government of Morocco on Title II commodity losses have produced absolutely no results during the last 25 years of program activity. The audit showed that between June 1981 and May 1989, Catholic Relief Services submitted 260 claims for commodity losses totaling approximately $1.7 million to the Government of Morocco. Not a penny was recovered on those claims, a significant portion of which resulted from thefts and diversions of commodities.

- Catholic Relief Services did not make timely deposit of monetization funds in an interest bearing account resulting in loss of interest income totaling $109,685.

- $161,000 of project funds were wasted because unnecessary taxes and duties were paid by Catholic Relief Services (CRS) on project procurements despite a long-standing tax exemption agreement between CRS and the Government of Morocco.

- Government of Morocco's controls over storage, distribution and accounting of Title II commodities needed strengthening.

- A close relationship between the two highest officials of the Catholic Relief Services in Morocco constituted a conflict of interest situation, resulting in vulnerability of the internal controls relating to the P.L. 480 Title II program.

- A total lack of financial reporting made it impossible to determine the extent to which the Government of Morocco was fulfilling its financial commitment of $58.6 million to the P.L. 480 Program.

The audit also showed that the Catholic Relief Services generally maintained efficient and reliable accounting records relating to receipts and expenditures under the monetization plan.

While we recognize that the P.L. 480 program is a commendable mechanism for distribution of food aid in Morocco, we also believe that the program could be considerably strengthened by correcting some serious and long-standing management deficiencies identified by this audit. If no corrective actions are taken, there is a risk of tarnishing the overall program by continuing a virtually institutionalized pattern of unchallenged diversions, losses and waste of a sizeable portion of program resources. This report therefore makes six recommendations for corrective action by A.I.D.

The USAID/Morocco's response to our draft audit report demonstrated a marked reluctance to even acknowledge that any major deficiencies existed. It sharply criticized the audit findings and recommendations, and suggested that seven of the nine sections of the draft report along with related recommendations, be eliminated altogether. For example, USAID/Morocco stated that the auditors' use of a $1.7 million figure for unpaid claims is "misleading" and an attempt to "sensationalize" the problem by using an inflated figure which included $700,000 in claims that had already been resolved. However, the $700,000 in claims which was characterized by the Mission as "resolved" were, in fact, previously written off by CRS as uncollectible, a series of actions in which USAID/Morocco acquiesced. The Mission considered our recommendation that $985,589 of outstanding claims be settled within 90 days or P.L. 480 shipments be suspended as "irresponsible" and stated that it would continue to work with CRS to negotiate claims on a "case-by-case" basis. We note, however, that similar efforts made by CRS and USAID/Morocco in the past did not result in recovery of a single claim in twenty five years of program activity. It appears that the Mission prefers to maintain the current status quo rather than take stronger action.

We are concerned not only with the lack of recoveries which, in effect, transfers the burden of thefts, losses and diversions of P.L. 480 commodities from the Moroccan Government to the U.S. taxpayer. We also believe that the Mission's failure to aggressively pursue losses relieves the Moroccan Government of the need to crackdown on such diversions and creates an unfortunate impression of A.I.D.'s unwillingness to enforce other areas of program compliance. If USAID/Morocco is unable or unwilling to assertively press for recovery of claims, insist on interest-bearing monetization accounts, obtain agreed upon exonerations from duties and taxes on program expenditures and verify the Government of Morocco's financial contributions, then such provisions should not have been incorporated in the P.L. 480 agreements in the first place.

Therefore, we have not acceded to the Mission's suggestion to eliminate all discussions and recommendations regarding most of these issues, but have substantially retained our original positions. The Mission's response to our draft report has been published in its entirety in order to facilitate a possible higher level review of the respective positions.

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Province or prefecture boundary
Province or prefecture capital
Sites visited
0 25 50 100 Miles
0 25 50 100 Kilometers

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P.L. 480 TITLE II PROGRAM IN MOROCCO

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AUDIT OF
P.L. 480 TITLE II PROGRAM IN MOROCCO

PART I - BACKGROUND, AUDIT OBJECTIVES AND SCOPE

A. *Background*

Public Law (P.L.) 480 was enacted by the Congress of the United States in 1954. The goals of this legislation included: promoting economic stability of U.S. agriculture, expanding international trade between the United States and friendly nations, disposing of surplus U.S. agricultural commodities and encouraging the economic growth of developing nations.

Under Title II of P.L. 480, the United States donates food principally for humanitarian purposes such as emergency disaster relief cases, programs to help needy people, particularly malnourished children and adults, and work projects which are designed to alleviate the causes of the need for food assistance.

The P.L. 480 program was initiated in Morocco by A.I.D. in 1957. From its inception, the Title II program was administered on behalf of A.I.D. by the Catholic Relief Services (CRS), a U.S. private voluntary organization.

The current P.L. 480 Title II program, also known as the Compensatory Feeding Program (CFP), was ratified on April 8, 1988 when A.I.D., the Ministry of Economic Affairs of the Government of Morocco (GOM) and CRS signed a Memorandum of Understanding setting forth the nature, scope and timeframe of the CFP.

The purposes of the program were to: (i) distribute food to the poorest segment of the Moroccan population as an income supplement; (ii) strengthen the institutional capacity of the GOM to manage food distribution programs using locally available resources; and (iii) reorient services of Moroccan social assistance institutions in order to improve the earning capacities of the participants.

The U.S. Government was responsible for providing the Title II commodities, the GOM was responsible for implementing the program and CRS was the cooperating sponsor. Specifically, CRS was responsible for developing implementation agreements with GOM, preparing annual estimates of Title II commodity requirements, selling commodities earmarked for monetization, disbursing monetized funds in accordance with an approved plan, monitoring commodity movements and program activities, and presenting claims to the GOM in the event of in-country commodity losses.

The program was implemented by three GOM entities. The Ministry of Handicraft and Social Affairs, through its agency, Entraide Nationale (EN), distributed food to a network of beneficiaries including day care centers, mother-child health care centers, orphanages, vocational education centers and artisanal cooperatives. Promotion Nationale (PN), an agency of the Ministry of Interior and Information, distributed commodities under Food for Work projects. The Ministry of Public Health distributed weaning food derived from P.L. 480 commodities to malnourished children.

The program timeframe was from FY 1987 through FY 1990, and was designed to benefit about 985,300 Moroccans. The program's financial budget from FY 1987 through FY 1989 was as follows:

	(in millions of $)		
Funding Source	FY 87	FY 88	FY 89
US Government	$6.9	$14.0	$19.5
Catholic Relief Services	0.4	1.2	1.2
Government of Morocco	8.0	25.3	25.3

A portion of the Title II foodgrains was to be monetized according to A.I.D. regulations. CRS was to sell the commodities earmarked for monetization to a local buyer and deposit the proceeds in a local interest bearing bank account. Funds from monetization were to be utilized by CRS for: warehousing, handling and transportation of P.L. 480 commodities; procuring vehicles, tools and equipment for use by GOM agencies responsible for program implementation; and financing operating costs relating to the P.L. 480 Title II program.

As of March 31, 1989, sales proceeds from monetization totaled DH 70,758,233 (approximately $8.8 million) and funds disbursed by CRS under the monetization plan amounted to DH 8,444,770 ($1,055,600).

B. *Audit Objectives and Scope*

The audit objectives were to determine whether: (i) there was a proper follow-up of in-country losses and spoilage of Title II commodities by CRS and claims for such losses were promptly filed and recovered by CRS from GOM; (ii) monetization sales proceeds were properly accounted for and handled by CRS in accordance with A.I.D. guidelines; (iii) expenditures incurred by CRS under the monetization program were allowable, reasonable, and in compliance with the approved monetization plan and applicable regulations; (iv) physical and accounting controls over P.L. 480 Title II commodities by GOM were effective and reliable; and (v) GOM made the required financial contributions to the P.L. 480 Title II program in accordance with the implementation agreements.

Food distribution day at
a Mother-child Health Care Center in Tangier

The audit focussed primarily on the current P.L. 480 Title II program from September 1, 1987 through June 30, 1989. In addition, an expansion of our tests to include a detailed review of in-country claims for Title II commodity losses, submitted by CRS to GOM from June 1981 through May 1989, was deemed necessary. The scope of work included: (i) reviewing contract agreements, correspondence and other documents relating to the P.L. 480 Title II Program at the offices of USAID/Morocco and the Catholic Relief Services; (ii) reviewing 260 in-country claims for commodity losses, totaling approximately $1.7 million submitted by CRS to GOM; (iii) reviewing monetization sales of $8.8 million and expenditures totaling approximately $1.1 million from September 1, 1987 through March 31, 1989; (iv) examining financial reports and related accounting records prepared by the Catholic Relief Services on the monetization program; (v) examining inventory records at the Catholic Relief Services, GOM warehouses and food distribution centers; (vi) verifying inventory quantities at the warehouses and observing food distribution programs at selected GOM locations; and (vii) interviewing cognizant USAID, CRS and GOM officials.

The audit was carried out in Rabat and other locations in Morocco between May 1 and June 30, 1989. The audit was performed in accordance with generally accepted U.S. government auditing standards and included such tests of the accounting and program records and such other auditing procedures as considered necessary in the circumstances. Wherever necessary in this report, Moroccan Dirhams were converted to U.S. dollars at an exchange rate of $1 = DH 8.

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PART II - AUDIT RESULTS AND RECOMMENDATIONS

1. *All Efforts Made by the Catholic Relief Services to Recover $1.7 Million in Outstanding Claims from the Government of Morocco Over a Period of Eight Years Produced No Results*

A.I.D. Handbook 9 states that when a loss, damage or misuse of Title II commodities occurs in the country of distribution, the cooperating sponsor is required to issue claims and make every reasonable effort to pursue collection of those claims. In addition, Title II implementation agreements between CRS and the GOM agencies responsible for implementing the P.L. 480 program reiterated the various parties' responsibilities relating to such claims.

A review of CRS and USAID/Morocco files showed that, over a period of 25 years, substantial quantities of Title II commodities were lost, spoiled or diverted while in the custody of GOM port authorities, inland transporters, GOM warehouses and food distribution centers. CRS duly filed claims against the responsible GOM agencies as provided under the Title II implementation agreements and A.I.D. regulations. However, in no case was CRS able to collect on a single claim.

Between June 1981 and May 1989, CRS filed 260 claims with GOM agencies totaling approximately $1.7 million. After more than five years of futile efforts to negotiate a recovery from GOM, CRS closed the files on 185 of those claims totaling $730,810 with USAID/Morocco's concurrence. Both parties concluded that the claims were irrecoverable because CRS had exhausted all reasonable attempts to collect the claims. The Mission also determined that any further pursuit of the claims would be fruitless, a waste of time and contrary to A.I.D.'s greater interest of an orderly phase-out of the Title II program in Morocco.

The remaining 75 claims totaling $985,589, processed by CRS from November 1985 to May 1989, are currently outstanding. Out of this amount, 76 per cent or $752,990 resulted from diversion of Title II commodities by GOM employees and the remaining 24 per cent or $232,599 from spoilage and losses of commodities. Exhibit 1 itemizes the outstanding claims and Exhibit 2 provides a breakdown of the claims by type of losses.

A review of the currently outstanding claims showed that, in general, CRS mailed three letters to GOM requesting settlement of each claim. GOM's responses were invariably negative. While acknowledging validity of the claims, they nevertheless declined to pay. According to CRS officials, the chances of collecting on any of the outstanding claims are virtually non-existent. Major examples of the outstanding claims submitted by CRS and responses provided by GOM are summarized below.

1. Claim No. 289 - $25,236.23

   Commodities were lost in the provincial warehouse of Marrakesh. After investigation, 17 GOM employees were fired. CRS filed a claim but did not receive reimbursement.

2. Claim No. 290 - $34,001.55

   103 metric tons of flour were lost when a ship loaded with the commodities sank off the coast of Agadir. CRS filed a claim because GOM was responsible for insuring the cargo. However, no reimbursement was received.

3. Claim No. 320 - $218,703.72

   Commodities were diverted by GOM employees in the province of Casa Anfa. Claim was filed by CRS. In response, GOM promised corrective action, but declined to pay.

4. Claim No. 322 - $58,783.83; and

5. Claim No. 323 - $56,701.31

   Commodities were diverted by GOM employees in the provinces of Tangier and Boulmane. CRS filed the above claims. GOM stated in response that corrective actions including dismissal of employees responsible for the irregularities were taken. But the claims remain unpaid.

6. Claim No. 346 - $223,013.81

   Title II commodities were diverted in Tangier by GOM employees. As a result of RIG/I/Dakar's investigation, CRS filed the above claim. GOM pointed out that disciplinary actions were taken against the employees involved, but declined to reimburse the claim.

USAID/Morocco was aware of the frustrating situation created by GOM and considered various actions to recover the claims, including: (i) making a claim against the cooperating sponsor (CRS) for its failure to obtain recoveries from GOM; and (ii) withholding funds from P.L. 480 monetization proceeds to compensate for the unpaid claims. However, neither of these options was ultimately acted upon.

USAID/Morocco officials acknowledged that all efforts by CRS over a period of 25 years to collect on the in-country claims from GOM have produced no results. Certainly, the GOM has acted in bad faith and reneged on its implementation agreements with CRS by refusing to settle the claims. In our opinion, the apparent reluctance by USAID/Morocco to take a firm coordinated stance with CRS on this issue has encouraged GOM to consistently refuse all requests to honor the claims. A disturbing pattern of behavior has emerged over the years that has virtually institutionalized GOM's refusal to settle the claims and USAID/Morocco's acquiescence to GOM's refusal. Little incentive exists for the GOM to crack down upon thefts and diversions of Title II commodities if the financial responsibility for the losses is, in effect, shifted from the Moroccan Government to the American taxpayer. The currently outstanding claims of approximately $1 million will almost certainly be lost and more will continue to be lost if the current status quo is maintained. It is therefore time for A.I.D. to cut its losses and take firm corrective action in accordance with A.I.D. guidelines.

Recommendation No. 1

We recommend that the Director, USAID/Morocco:

a. require the Catholic Relief Services to serve a ninety-day notice in writing to the cognizant Government of Morocco implementing agencies to settle the 75 outstanding claims totaling $985,589 (Exhibit 1); and

b. suspend further shipment of P.L. 480 Title II commodities unless the Government of Morocco makes a written commitment to the Catholic Relief Services to reimburse at least a substantial portion of the outstanding claims within the above ninety-day period.

Management Comments

USAID/Morocco asked that the entire finding and recommendations be deleted. They stated that losses from claims are a small percentage of the total value of the P.L. 480 Title II Program, that USAID and CRS followed A.I.D. regulations in pursuing the claims and that the prospects for collecting the claims from GOM were not good. They also added that the audit recommendations were at variance with A.I.D. guidelines.

Office of Inspector General Comments

We regard USAID/Morocco's response as an attempt to whitewash their lack of decisive action on the claims situation. Many of the deficiencies identified by this audit resulted from the Government of Morocco's continuous and widespread refusal to honor its written agreements and commitments under the P.L. 480 program and USAID/Morocco's acquiescence to such refusal. This disturbing sequence of events, which has continued unabated over a number of years, has now become firmly entrenched and institutionalized. The apparent reluctance by the Mission to take a firm stand against the Government of Morocco's unilateral repudiations of its contractual agreements has created a general perception of weakness on part of the U.S. Government representatives in Morocco when dealing with their host country counterparts.

The primary purpose of filing a claim is to obtain recovery for losses. P.L. 480 Title II implementation agreements between the Catholic Relief Services (CRS) and the Government of Morocco (GOM) required GOM to reimburse CRS for claims submitted for in-country commodity losses. GOM violated those agreements with impunity. Between June, 1981 and May 1989 CRS submitted 260 claims totalling $1.7 million to GOM. Not a penny was recovered. In memoranda issued on January 27 and February 24, 1989, the USAID/Morocco Food for Peace Officer and the USAID Regional Legal Adviser acknowledged that GOM did not honor a single claim submitted by CRS over a period of 25 years of program activity. In another memorandum issued to CRS on May 2, 1989 the USAID/Morocco Food for Peace Officer commented that GOM's negative position on the claims reflected an attitude that the U.S. Government must assume the burden for commodity losses and stated that it was important to get GOM to acknowledge their financial responsibilities for the claims.

GOM's refusal to acknowledge their financial responsibilities to reimburse the claims is a very serious problem that has cost the U.S. Government millions of dollars in program resources over a period of 25 years. USAID/Morocco's attempt to minimize those losses by pointing to percentages or citing prior write-offs is misleading and serves no useful purpose.

We recognize that CRS and USAID/Morocco followed A.I.D. regulations in pursuing the claims. But these efforts have been fruitless and the GOM has simply refused to budge. Therefore, stronger action, also in accordance with A.I.D. regulations, should have been taken to recover the currently outstanding claims of $985,589 (Exhibit 1).

Chapter 7, Section 7N of A.I.D. Handbook 9 states that either A.I.D. or the cooperating sponsor can suspend a P.L. 480 Title II Program when serious deficiencies are known. In October, 1989 the American Ambassador in Liberia publicly notified the local authorities of the U.S. Government's intention to suspend future shipment of P.L. 480 commodities unless appropriate action was taken to prevent diversion of the commodities.

In our opinion, the refusal by GOM to reimburse $1.7 million of claims for commodity losses over the last eight years constitutes a very serious deficiency in program implementation, requiring immediate corrective action. Therefore, our recommendation to suspend commodity shipments unless claims are substantially recovered within a reasonable period is both appropriate and in accordance with A.I.D. guidelines.

2. *Catholic Relief Services Did Not Make Timely Deposit of Monetized Funds In Interest Bearing Accounts*

A.I.D. monetization guidelines required the cooperating sponsor, Catholic Relief Services (CRS), to open an interest bearing account at a local bank to deposit proceeds from sale of monetized Title II commodities. Interest earned on this account was to be applied towards expenditures budgeted in the monetization plan, which was to include estimates and uses of expected interest earnings, particularly for large projects, such as the P.L. 480 program in Morocco, where interest earnings could be sizeable.

Over a twelve-month period between December 9, 1987 and December 30, 1988 CRS sold monetized wheat to a public sector organization in Morocco for DH 70,758,233 ($8.8 million). During the same period, expenditures under the monetization plan totaled DH 6,998,333 ($874,800). Therefore, CRS had almost $8 million of idle cash available for deposit in interest bearing accounts. However, CRS did not transfer any funds to an interest bearing account for over a year from inception of the monetization activity.

USAID/Morocco was aware of the delay and sent CRS written instructions on June 9, 1988 to deposit the monetization sales proceeds into an interest bearing account. However, CRS ignored the instructions and took no action for six months.

Finally, on December 20, 1988, more than a year after the monetization sales were in operation, CRS transferred DH 22,200,000 ($2,775,000) of the monetized funds to an interest bearing account. In the meantime, the P.L. 480 Title II program in Morocco lost a significant amount of interest income and a potential source of project funds (Exhibit 3).

Explanations offered by CRS officials for not transferring monetized funds in a timely manner to interest bearing accounts were unconvincing and misleading. In response to an inquiry by USAID/Morocco in November 1988, CRS informed A.I.D. officials that interest bearing checking accounts were not permitted under Moroccan law. However, from our interviews with officials of two Moroccan banks in which CRS maintained accounts, we learned that attractive interest rates were offered by those banks on short and long term deposits of three, six and twelve months duration. CRS could have availed itself of these interest rates and utilized a substantial portion of the $8 million idle monetization funds to generate additional cash resources for the P.L. 480 Title II program.

To illustrate, CRS received A.I.D.'s written instructions to transfer monetized funds into interest bearing account on June 9, 1988. By the end of June, it had a cash balance of DH 12,7 million in its checking account. Based on existing and future cash requirements, it could easily have transferred DH 10 million of this cash balance into a 90-day deposit account on July 1, 1988, earning interest at 8.5 percent per annum. Total interest earned would have amounted to DH 877,480 ($109,685) by June 30, 1989 (Exhibit 3).

Furthermore, large amounts of idle funds in a checking account are vulnerable to irregularities and misuse. For example, interviews with a senior official and a former official of the two banks in which monetization funds were deposited by CRS revealed that various "inducements" and "benefits" were available to customers who deposited large sums of money in checking accounts instead of interest bearing accounts. This report does not contend that such irregularities occurred but rather highlights the vulnerability of the situation.

By not depositing the P.L. 480 monetized funds in interest bearing accounts in a timely manner, CRS did not fulfill its custodial obligation as a cooperating sponsor and did not act in the best interest of A.I.D. This willful act of omission by CRS, despite A.I.D.'s written instructions, resulted in a loss of potential project funds of DH 877,480 ($109,685) to the P.L. 480 Title II program in Morocco (Exhibit 3).

Recommendation No. 2

We recommend that the Director, USAID/Morocco:

a. submit a bill for collection to Catholic Relief Services in the amount of DH 877,480 ($109,685) for loss of interest income from P.L. 480 Title II monetized funds;

b. require the Catholic Relief Services to establish quarterly cash requirements for expenditures under the monetization plan including estimates and uses of expected interest earnings; and *c. instruct Catholic Relief Services that the amount of monetized funds in the checking account be henceforth limited to these quarterly cash requirements and the remaining funds be placed in short-term interest bearing accounts.*

Management Comments

USAID/Morocco agreed that monetization funds could have generated interest income, if idle cash had been deposited in interest bearing accounts. However, they stated that A.I.D. guidelines on this issue were not clear and CRS was unable to determine the program's financial needs until the second year of its operation. Therefore, USAID/Morocco did not agree that CRS should be penalized for lost interest income and asked that Recommendation No. 2 (a) be deleted.

Office of Inspector General Comments

We do not concur with the Mission's views. Cable guidance, issued by A.I.D. from Washington on October 21, 1987 stated that currency generated from monetization should be placed in interest bearing accounts and interest earned should be used for program activities. This guidance was issued before CRS received its first monetization sales proceeds on December 9, 1987. Also, the USAID/ Morocco Director sent written instructions to CRS on June 9, 1988 which referred to the above cable and reminded CRS of the need to deposit monetized funds into an interest bearing account. Therefore, CRS was well aware of the regulations. But it chose to ignore the regulations as well as A.I.D.'s written instructions. No money was transferred by CRS to interest bearing account for a full year resulting in substantial loss of interest income and potential program resources. Also, CRS was fully aware of the program's cash requirements, having established a budget which projected its cash requirements from September 1, 1987 to December 31, 1988. The following financial data, prepared from CRS accounting records, shows that CRS had substantial idle funds from monetization sales which could have earned significant interest income.

Period	Monetization Sales DH	Monetization Expenditures DH	Available Idle Funds DH
9/1/87 - 3/31/88	15,573,719	2,080,393	13,493,326
4/1/88 - 6/30/88	-	767,198	12,726,128
7/1/88 - 9/30/88	-	2,295,835	10,430,293
10/1/88 - 12/31/88	55,184,907	1,854,907	63,759,900
	DH 70,758,233	DH 6,998,333	DH 63,759,900
	$8,845,000	$874,800	$7,970,000

Therefore, we conclude that CRS did not fulfill its responsibilities as a cooperating sponsor by not depositing the idle funds in a timely manner to interest bearing accounts, and should reimburse USAID for lost interest income caused by its negligence.

We were also informed by reliable sources connected with the Moroccan banking sector, that banks in Morocco are known to offer substantial inducements to customers who deposit large sums of money in checking accounts rather than in interest bearing deposit accounts. Thus, idle project funds of $8 million could be manipulated to yield substantial benefits to individuals who have control over those funds.

3. *Unnecessary Payments of Taxes and Duties On P.L. 480 Program Expenditures Resulted in Significant Waste of A.I.D. Resources*

Under a bilateral agreement between the United States and the GOM dated April 2, 1957, expenditures incurred under A.I.D.-financed programs were exempted from taxes and duties levied under the laws of Morocco. The Catholic Relief Services also obtained a tax-exempt status on expenditures incurred under The P.L. 480 program as a result of an agreement signed with the GOM on August 30, 1966.

However, a review of the expenditures incurred by CRS under the P.L. 480 Title II monetization plan showed that Value Added Tax (TVA) and, in some instances, even customs duties, were invariably paid by CRS on project procurements. The purchases included vehicles, tools, office equipment and computers for GOM entities, and also food handling, and transportation costs relating to commodities donated by A.I.D. for distribution under the P.L. 480 Title II program. Examination of CRS accounting records identified unnecessary payments of taxes and duties totaling approximately DH 1.3 million ($161,000).

A review of project correspondence and interviews with CRS officials showed that CRS made several representations to GOM, invoking terms of the agreement with GOM that exonerated CRS from duties and taxes on expenditures incurred under the P.L. 480 program. However, GOM reneged on its agreement and declined to offer any tax relief.

Refusal by GOM to honor two separate tax exemption agreements concluded with the U.S. Government and CRS demonstrates a lack of good faith. USAID/Morocco's failure to intervene on this serious issue is another example of the Mission's acquiescence in GOM's continuous and widespread disregard for its contractual obligations. Payment of unnecessary duties and taxes by CRS out of Title II monetization funds resulted in significant waste of A.I.D. resources that could otherwise have been fruitfully utilized in the P.L. 480 program. Therefore, immediate corrective action by A.I.D. is necessary to prevent further waste of U.S. Government resources.

Recommendation No. 3

We recommend that the Director, USAID/Morocco, require the Catholic Relief Services to:

a. *compute the amount of duties and taxes paid on all expenditures incurred under the monetization plan of the current P.L. 480 Title II program and withhold an equivalent amount from monetization funds;*

b. *reimburse net of duties and taxes all invoices submitted henceforth by the Government of Morocco participating agencies for expenditures incurred under the P.L. 480 Title II program; and*

c. *notify the Government of Morocco (GOM) in writing that further shipment of Title II commodities will be suspended unless GOM agrees to exonerate Catholic Relief Services (CRS) from duties and taxes on expenditures incurred under the P.L. 480 program in accordance with its prior agreement with CRS.*

Management Comments

USAID/Morocco asked that the entire finding and recommendations be deleted. They pointed out that payment of taxes with monetization funds is not prohibited by A.I.D. guidelines, that CRS made all reasonable efforts to gain duty and tax free privileges but were thwarted by the GOM fiscal authorities, and that CRS cannot claim tax exemptions under the bilateral agreement between the U.S. Government and the GOM because of its status as a private voluntary organization.

Office of Inspector General Comments

CRS negotiated a written agreement with Entraide Nationale, the principal GOM implementing agency responsible for the P.L. 480 program, on August 30, 1966 which granted CRS exoneration from duties and taxes on expenditures under the P.L. 480 Program. This agreement was to remain in force unless terminated by either party by serving a 90-day notice. No such notice was issued either by the Entraide Nationale or CRS. Therefore, the agreement remains valid and commits the GOM to exonerate the CRS from duties and taxes on procurements under the P.L. 480 program.

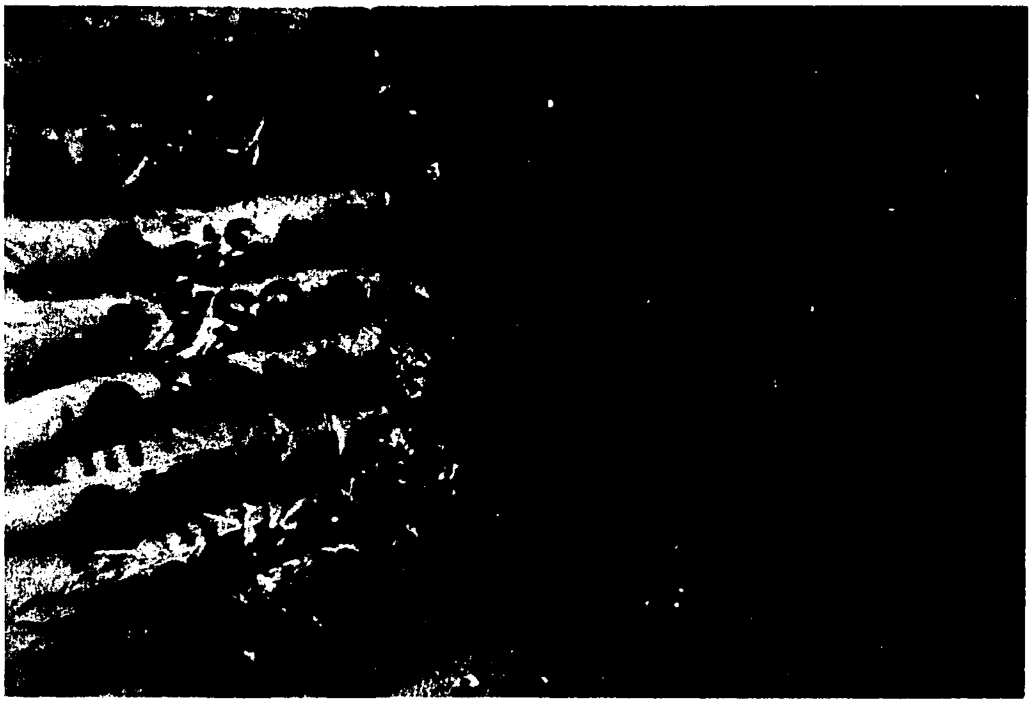
While we recognize that CRS made reasonable efforts to rightfully claim its tax free privileges, the GOM went back on its written agreement to provide CRS tax relief. A review of CRS correspondence with the Entraide Nationale (EN) showed that the Director of EN made several representations to the Moroccan fiscal authorities requesting them to recognize the tax-exempt status of CRS, resulting from its agreement with the GOM. But the GOM fiscal authorities declined to provide tax relief. We find it totally unacceptable that CRS should have to pay hundreds of thousands of dollars on unnecessary taxes and duties on an A.I.D.-financed humanitarian assistance program, despite a written agreement with the GOM, granting CRS an exemption from such levies.

We believe that rather than maintain a "hands off" posture on this issue, USAID/Morocco should intervene strongly to prevent further wastage of P.L. 480 program resources and protect the legitimate interests of the U.S. Government. Therefore, we are recommending that A.I.D., in coordination with the Catholic Relief Services, suspend further shipments of Title II commodities under the P.L. 480 program in accordance with Chapter 7, Section 7N of A.I.D. Handbook 9, unless the Government of Morocco agrees to provide exoneration from duties and taxes on all expenditures incurred by the Catholic Relief Services relating to the P.L. 480 program.

4. *Controls Over Storage, Distribution and Accounting of P.L. 480 Title II Commodities Needed Strengthening*

The Memorandum of Understanding and project implementation agreements relating to the P.L. 480 Title II program required CRS to ensure that the commodities were properly stored and safeguarded, correct food rations were distributed in a timely manner to eligible recipients, and physical and accounting controls over the commodities were satisfactory.

A visit to one port warehouse, one regional warehouse, five provincial warehouses, and nine P.L. 480 food distribution centers in the provinces of Casablanca, Fez, Marrakesh, Rabat, Sale, and Tangier showed several deficiencies which are summarized in Exhibit 4 of this report and described below in detail.



Cornmeal bags stored on the floor instead of on pallets at the Marrakesh Regional Warehouse

Generally, warehouses and distribution centers were not adequately equipped to store commodities. None of the distribution centers had fire fighting equipment. The Rabat provincial warehouse had dirty floors, inadequate ventilation and no fire extinguishers. The same condition was observed in the Sale provincial warehouse which was also rodent infested. At the Fez provincial warehouse, commodities were stored on the floor instead of pallets, thereby increasing exposure to humidity. There were no smoking restrictions in any of the warehouses which, together with lack of fire fighting equipment, increased the risks of fire.

In Sale and Tangier, the warehouse accountants were responsible for receiving and distributing P.L. 480 commodities in addition to their normal accounting duties. This constitutes a significant internal control weakness that could result in diversion of Title II commodities.

Finally, we learned that CRS inspection teams, who periodically visited the food distribution centers to monitor program activities, did not verify the eligibility of beneficiaries to participate in the program nor determine whether they received correct food rations.

CRS and GOM officials stated that they were in the process of improving the warehouses by installing pallets and fire extinguishers. However, all food distribution centers could not be so equipped because of the expense involved. They further stated that the bulk of the P.L. 480 commodities were stored at the provincial warehouses which were therefore more vulnerable to fire and spoilage than local warehouses. CRS officials stated that efforts were continuously being made to locate better equipped warehouses to store P.L. 480 commodities.

CRS acknowledged that their periodic inspections did not include verifying the eligibility of the beneficiaries or determining the correctness of the food rations. However, CRS senior officials occasionally interviewed food program participants during their field trips to determine their eligibility and whether they received their allotted rations.

CRS officials also acknowledged the lack of segregation of duties between the accountant and the warehouse keeper and promised to take corrective action. According to GOM officials, appropriate segregation of duties in the warehouses was not feasible because of an inadequate staffing situation.

Lack of adequate controls at the GOM storage and food distribution centers resulted in loss, spoilage and misuse of significant quantities of Title II commodities. For example, between November 1985 and May 1989 CRS issued 75 claims to GOM for commodity losses totaling $985,589 which, in our opinion, may have resulted from lack of adequate controls at the GOM warehouses and food distribution centers.

In their response to the draft audit report, USAID/Morocco stated that the Mission, in coordination with CRS, made significant efforts to improve storage conditions. For example, a management study conducted by A.I.D. in January, 1988 and a review conducted by CRS in July, 1988 made several recommendations to improve warehouse conditions. Those recommendations were incorporated in the P.L. 480 program's operating plan and funds from monetization were earmarked to cover the expenses. USAID/Morocco also stated that efforts made by CRS to institute training programs for GOM personnel and improve accounting controls over the Title II commodities had resulted in improved inventory registers and accounting records at the GOM facilities. We believe that the above steps, when fully implemented, will result in considerably stronger physical and accounting controls over the Title II commodities.

Recommendation No. 4

We recommend that the Director, USAID/Morocco, require the Catholic Relief Services to:

a. *coordinate with the Government of Morocco in upgrading the provincial and local warehouses and food distribution centers by: providing adequate ventilation; improving hygienic conditions and equipment at the warehouses; installing fire extinguishers; and instituting proper segregation of duties and responsibilities at the warehouses and food distribution centers; and*

b. *interview selected food recipients of the P.L. 480 program periodically to determine their eligibility and whether they received their allotted rations.*

Management Comments

USAID/Morocco accepted the above recommendations but requested that the finding section be revised to recognize the monitoring efforts made by USAID/Morocco and the CRS to strengthen physical and accounting controls over the Title II Commodities.

Office of Inspector General Comments

We concur with the Mission's comments and have accordingly amended the finding section to incorporate the changes suggested by the Mission.

5. *USAID/Morocco Should Resolve a Conflict of Interest Situation Affecting The Integrity of The P.L. 480 Title II Program*

A sound system of internal controls requires a proper segregation of duties and responsibilities. An important factor in determining the adequacy of such controls is to assess the possibility of conflict of interest. If two closely related individuals hold key positions in an organization, the potential conflict of interest can significantly impede the internal controls which are fundamental to sound management. This principle is recognized in 5 Section 3110 U.S.C., also referred to as the "nepotism statute", which provides that no U.S. Government employee may appoint, employ, promote, advance or advocate for appointment, employment, promotion or advancement in the employee's agency certain relatives, including spouses. While this provision of law is not directly applicable to non governmental organizations, the concept set forth therein is so fundamental to sound program management that its violation warrants immediate corrective action.

The Catholic Relief Services. a U.S. private voluntary agency, is the cooperating sponsor of the P.L. 480 Title II program in Morocco. Two key employees in CRS/Morocco are the CRS Director and his wife, who is the head of the P.L. 480 Title II program. Besides being key decision makers, these two officials are also the only check signatories of the Title II bank accounts in which monetization funds totaling approximately DH 70,7 million ($8.8 million) had been deposited from December 1, 1987 through December 31, 1988. The audit identified significant losses of interest income totalling DH 877,480 ($109,685) because the monetization funds were not handled by CRS in accordance with A.I.D.'s guidelines and written instructions.

This report does not allege that the above losses resulted from a spousal relationship between the two highest CRS officials in Morocco. Rather, we believe that the relationship represents a conflict of interest situation that seriously compromises the adequacy of internal controls of The P.L. 480 program.

Recommendation No. 5

We recommend that the Director, USAID/Morocco, in coordination with the Assistant Administrator, Bureau for

Food for Peace and Voluntary Assistance, require the Catholic Relief Services (CRS) to eliminate the conflict of interest situation in CRS/Morocco's organizational structure so as to ensure the adequacy of CRS internal controls and the integrity of the P.L. 480 Title II program in Morocco.

Management Comments

USAID/Morocco asked that the finding and recommendation be deleted from the report. They stated that CRS headquarters hired the CRS/Morocco Director and his wife and suggested that A.I.D. Washington be consulted on this matter. USAID/Morocco further stated that CRS internal controls over P.L. 480 Title II monetization funds were sound.

Office of Inspector General Comments

We believe that a close relationship between two highest officials in an organization represents a potential conflict of interest situation and the internal controls are therefore vulnerable to circumvention. This is particularly true if the two key officials are the only check signatories of an A.I.D. financed bank account where approximately DH 70.7 million, or $8.8 million of P.L. 480 program funds were deposited. The audit showed that the bank account was not properly handled, resulting in substantial loss of interest income and potential project funds.

While no other negative consequences were noted, it is easy to envision a scenario in which large diversions of P.L. 480 program funds could occur in the absence of normal checks and balances associated with a system of segregation of duties and responsibilities. Therefore, the above conflict of interest situation should be resolved by A.I.D. in order to safeguard U.S. Government interests and to ensure the integrity of the P.L. 480 program in Morocco.

6. ***An Accounting from the Government of Morocco of Its Agreed Upon Financial Contribution of $58.6 Million Was Not Available***

The Memorandum of Understanding of the P.L. 480 Title II Compensatory Feeding Program required the GOM to contribute $58.6 million from Fiscal Years 1987 through 1989. This amount included salaries of GOM personnel, project equipment and other in-kind support.

We requested an accounting for this contribution from CRS and USAID/Morocco. However, neither party was able to obtain from the GOM periodic financial reports showing the contributions made and expenditures incurred by GOM under the P.L. 480 Title II program. CRS officials stated that such information was difficult to obtain because GOM was reluctant to release financial data.

Lack of financial information made it impossible to determine whether GOM was making its required contribution to the P.L. 480 Title II program. Furthermore, in view of GOM's record of going back on its written agreements, as evidenced by its refusal to settle claims for commodity losses and to exonerate the Title II program from duties and taxes, we have every reason to be skeptical about the extent to which the GOM is fulfilling its financial commitments under the P.L. 480 program.

To facilitate effective project monitoring and to determine whether GOM is fulfilling its responsibilities under P.L. 480 Title II Program, it is essential to obtain a periodic accounting from GOM of its program inputs.

In our opinion, the inclusion of yet another provision in the Memorandum of Understanding relating to the Title II program, which the USAID/Morocco and CRS appear unable or unwilling to enforce, does more harm than good. It reinforces an apparent GOM tendency to consider its agreements and commitments to the Title II program as non-binding, and creates a perception of weakness on part of the U.S. Government representatives in Morocco when dealing with their host country counterparts. We therefore believe that, should GOM decline to provide the required financial data, USAID/Morocco should either press the issue agressively, or, in coordination with A.I.D.'s Asia and Near East Bureau, address this particular requirement in another context or document.

Recommendation No. 6

We recommend that the Director, USAID/Morocco, obtain from the Government of Morocco periodic financial reports showing its agreed upon contributions and related expenditures under the P.L. 480 Title II program.

Management Comments

USAID/Morocco asked that the finding and recommendation be deleted from the report. They stated that A.I.D. and CRS have an "excellent" monitoring system which enables the Mission to determine how well the GOM is supporting the project. USAID/Morocco therefore believed that program monitoring was a more effective management tool than reviewing GOM's financial reports.

Office of Inspector General Comments

We do not concur with the Mission's views. Firstly, we question the assertion that the project monitoring system was "excellent". The audit revealed a substantial loss of A.I.D. resources totalling almost $2 million because of failure by USAID/Morocco and CRS to recover claims for commodity losses and to obtain exemptions from duties and taxes on project expenditures from the GOM. Secondly, we believe that periodic financial reporting by GOM is an essential management tool for USAID/Morocco to measure operating efficiency and to determine the extent to which GOM is fulfilling its financial commitments. The current P.L. 480 Title II program has now been operating for two years. GOM's financial commitments during this period should have totaled $58.6 million. Because of a total lack of financial accountability by the GOM, neither the Mission nor CRS was able to determine what, if anything, was contributed by GOM. By any standards of management, this is an unacceptable deficiency that warrants immediate corrective action.

7. *Compliance and Internal Controls*

Compliance

The GOM continuously disregarded its contractual agreements and commitments under the P.L. 480 program by: (i) refusing to honor claims totaling $1.7 million for in-country losses of Title II commodities; and (ii) declining to provide exemption from duties and taxes for procurements made by CRS under the P.L. 480 program, despite a long-standing agreement with CRS granting exoneration from such levies.

CRS did not comply with A.I.D. regulations and A.I.D.'s written instructions by not transferring monetized funds to an interest bearing account in a timely manner, resulting in significant loss of potential P.L. 480 Title II resources.

Internal Controls

Expenditures incurred by CRS under the monetization plan were supported by appropriate documentation and the accounting records facilitated preparation of reliable financial reports. However internal controls relating to the P.L. 480 Title II program were vulnerable to circumvention because of a potential conflict of interest situation in the CRS/Morocco's organizational structure.

GOM's physical and accounting controls over Title II commodities at the warehouses and food distribution centers needed strengthening. For example, improved hygienic condition and ventilation, adequate storage equipment and installation of fire extinguishers would considerably improve physical controls over the commodities. Accounting controls could be strengthened by instituting proper segregation of duties and responsibilities at the warehouses.

AUDIT OF
P.L. 480 TITLE II PROGRAM IN MOROCCO

PART III - EXHIBITS AND APPENDICES

AUDIT OF
P.L. 480 TITLE II PROGRAM IN MOROCCO

SUMMARY OF CLAIMS OUTSTANDING AS OF MAY 31, 1989

Agency	Claim Number	Date	Amount ($)
Entraide	289	12-Nov-85	25,236.23
Nationale	290	12-Nov-85	34,001.55
	294	27-Jan-86	20,884.16
	319	09-Dec-87	6,966.00
	320	09-Dec-87	218,703.72
	321	09-Dec-87	17,289.13
	322	09-Dec-87	58,783.83
	323	16-Dec-87	56,701.31
	324	11-Dec-87	2,333.87
	325	11-Dec-87	324.94
	326	11-Dec-87	2,783.71
	327	11-Dec-87	163.24
	328	11-Dec-87	1,330.55
	329	11-Dec-87	718.56
	330	16-Feb-88	4,312.50
	331	16-Feb-88	3,604.63
	332	16-Feb-88	6,102.93
	333	16-Feb-88	2,208.00
	334	16-Feb-88	56,510.36
	335	16-Feb-88	2,398.06
	336	25-Mar-88	3,215.80
	337	25-Mar-88	1,800.24
	338	18-Aug-88	1,185.65
	339	18-Aug-88	668.11
	340	18-Aug-88	104.72
	341	30-May-88	350.00
	342	30-May-88	419.65
	343	31-May-88	2,298.78
	344	31-May-88	6,146.00
	345	10-Jun-88	2,476.60
	346	09-Aug-88	223,013.81
	347	09-Aug-88	3,388.00
	348	09-Aug-88	1,324.44
	349	09-Aug-88	9,408.00
	350	09-Aug-88	4,921.02
	351	09-Aug-88	20,354.10

Agency	Claim Number	Date	Amount ($)
Entraide Nationale	352	09-Aug-88	53,452.00
	353	09-Aug-88	2,310.00
	354	09-Aug-88	899.34
	355	21-Sep-88	1,778.00
	356	21-Sep-88	2,464.00
	357	26-Sep-88	1,904.00
	358	26-Sep-88	336.00
	359	26-Sep-88	1,263.79
	360	06-Oct-88	1,035.44
	361	10-Nov-88	1,184.64
	362	23-Nov-88	360.00
	363	23-Nov-88	585.44
	364	22-Nov-88	1,243.36
	365	23-Nov-88	1,101.60
	366	24-Nov-88	418.00
	367	28-Nov-88	2,063.52
	368	28-Nov-88	1,373.76
	369	28-Nov-88	2,290.56
	370	28-Nov-88	946.66
	371	09-Dec-88	299.38
	372	15-Dec-88	420.00
	373	01-Mar-89	356.40
	374	23-Feb-89	2,142.00
	375	23-Feb-89	611.50
	376	01-Mar-89	2,800.14
	377	27-Mar-89	400.40
		Total	$886,472.13
Promotion Nationale	1	29-Nov-88	22,555.00
	2	30-Dec-88	8,356.47
	3	27-Jan-89	871.00
	4	08-Feb-89	875.00
	5	06-Mar-89	32,066.32
	6	30-Mar-89	21,733.92
	7	07-Apr-89	971.00
	8	07-Apr-89	419.73
	9	12-Apr-89	658.03
	10	02-May-89	796.38
		Total	$89,302.85

Agency	Claim Number	Date	Amount ($)
Sante Publique	1	14-Nov-88	7,504.19
	2	24-Nov-88	1,775.20
	3	01-Mar-89	534.40
		Total	$9,813.79
		Grand Total	$985,588.77
		Rounded off	$985,589

AUDIT OF
P.L. 480 TITLE II PROGRAM IN MOROCCO

BREAKDOWN OF OUTSTANDING CLAIMS BY TYPE OF LOSS

	Entraide Nationale	Promotion Nationale	Sante Publique	Total	Percentage
Diverted for non-program use	$752,990	--	--	$752,990	76.40%
Unfit for consumption	44,852	87,913	9,815	142,580	14.47%
Lost in transit or warehouse	88,628	1,391	--	90,019	9.13%
Total	$886,470	$89,304	$9,815	$985,589	100.00%

Note: Amounts are rounded off to the nearest dollar.

Exhibit 2

AUDIT OF
P.L. 480 TITLE II PROGRAM IN MOROCCO

COMPUTATION OF INTEREST INCOME ON A 90-DAY FIXED DEPOSIT OF DH 10 MILLION

FROM JULY 1, 1988 TO JUNE 30, 1989

Period	Beginning Balance DH	Interest Rate	Period Days	Interest DH	Ending Balance DH
07/1/88 - 09/30/88	10,000,000	8.5%	90	212,500	10,212,500
10/1/88 - 12/31/88	10,212,500	8.5%	90	217,016	10,429,516
01/1/89 - 03/31/89	10,429,516	8.5%	90	221,627	10,651,143
04/1/89 - 06/30/89	10,651,143	8.5%	90	226,337	10,877,480
				Total Interest DH	877,480
					$109,685

Note: Information on the rate of interest for a 90-day deposit was provided by officials of the Citibank and the Wafa Bank, Rabat. Title II monetization funds were deposited in these two banks by the Catholic Relief Services.

Exhibit 3

AUDIT OF
P.L. 480 TITLE II PROGRAM IN MOROCCO

CONDITION OF FACILITIES VISITED

LOCATION	TYPE OF FACILITY	FIRE EXTINGUISHERS	VENTILATION	PALLETS	HYGIENIC CONDITION
Rabat	Provincial Warehouse	+	+		+
	Youssouphia *	+			+
Sale	Provincial Warehouse	+	+		+
Casablanca	Port Warehouse				
Marrakesh	Regional Warehouse			+	
	Provincial Warehouse			+	
	Daoudiat I *	+		+	
	Douar El Laskar*	+		+	
	Arset Bani #	+		+	
	Douar Iziki*	+		+	
Tangier	Provincial Warehouse			+	
Fez	Provincial Warehouse	+	+	+	+
	Fez Jdid*	+		+	
	El Mahraz*	+		+	
	Adoua*	+		+	
	Bab Lamtiyine*	+		+	

Notes:

\+ Denotes unsatisfactory condition
\# Arset Bani is a distribution point for 13 centers
* Mother-Child Health Care Centers

Exhibit 4

USAID MOROCCO COMMENTS ON
DRAFT AUDIT REPORT
NO. 7-608-89-XX

"AUDIT OF PL 480 TITLE II
PROGRAM IN MOROCCO"

DATED SEPTEMBER 18, 1989

OCTOBER 18, 1989

INTRODUCTION

Following the promise delivered to King Hassan II on March 3, 1987 by the President's personal emissary, then Secretary of Treasury James A. Baker, to provide food aid as a means of helping the poor during the difficult period of structural adjustment, the Mission worked with CRS to prepare a program large enough to achieve this objective. What has resulted is a $175 million program, counting all contributions, spanning more than three years. The Compensatory Food Program is a serious attempt to buffer the effects of far-reaching policy reforms on the lives of poor people and a tangible demonstration of the United States' resolve to help Morocco during its time of financial crisis. This American effort sets the foreign policy context for considering the merits of the draft audit report. The draft and USAID Morocco's detailed responses must be considered in this context, lest A.I.D. willfully squander untold bilateral good-will and hurt the very beneficiaries the United States set out to help by our inability to distinguish the important from the unimportant.

The Compensatory Food Program USAID and CRS developed is unique under Title II. It is the most rigorously planned Title II program in the world, with specific objectives, strict targetting, a beginning point and, most importantly, a formally negotiated termination date. The extensive use of monetization funds supports both development objectives and management requirements. As a result, one of the authors of the draft audit report commented that the Compensatory Food Program (CFP) was the best managed Title II program he had seen in Africa. We believe it is one of the best managed programs in the world.

Given the tremendous effort made by USAID and CRS to create a model Title II program, we were shocked by comments and recommendations in the draft audit report that imply that the program is poorly managed and that CRS should be made financially responsible for any problems that have arisen. We see no effort on behalf of the writers of the draft to help the CFP reach its main goal, channelling food resources to the poor during a finite period of time. Instead, the writers focus their attention on problems that are not severe enough to have a major impact on the program, that result from delayed approval by Washington agencies of A.I.D. monetization guidance, or that are understandable results of working in the developing world.

The Compensatory Food Program was designed to make food aid contribute significantly to economic development. It was an outgrowth of analysis done by the World Bank to ensure that the macroeconomic policy reforms necessary for long term growth would not further impoverish the poor in the medium term. The CFP is a three and a quarter year program reaching 965,000 beneficiaries in 2,160 centers and work sites with 167,000 metric tons of food. In addition, 67,800 metric tons of wheat are being sold (or monetized) to provide local currency for program management and economic development activities. The total value of A.I.D.'s contribution to the program is $68.2 million, while the GOM is contributing $104.6 million and CRS $2.8 million.

The program is extraordinarily complex, using six different mechanisms to reach the poor and malnourished. Through the Ministry of Handicrafts and Social Affairs' Entraide Nationale, the CFP supports nutritional education centers for mothers and children, boarding houses for rural children attending secondary schools, training centers for boys and girls, and handicraft cooperatives. The Ministry of Interior's Promotion Nationale provides Title

II in food for work activities both in rural and urban areas. The Ministry of Public Health exchanges Title II milk for locally produced weaning food, which it distributes to infants attending its health centers. The Ministry of Agriculture was expected to use Title II food in its reforestation food for work activities, but its component of the CFP was terminated due to the Ministry's inability to comply with the CFP's strict accounting and control requirements.

From the beginning, USAID involved RIG Dakar in developing the controls needed for this massive Title II program. In June 1987, seven months before the CFP was formally approved by the DCC in Washington, the Mission requested RIG Dakar to review management systems proposed for the CFP to ensure that necessary controls were in place. In November 1987, RIG Dakar helped draft a scope of work for a private accounting firm to prepare an internal control assessment. The assessment was funded by the Mission and performed by Price Waterhouse in July 1988. It recommended measures to be carried out by USAID, CRS, and the GOM in order to fully implement Title II legislation, regulations and guidance. One recommendation, put in place by CRS in February 1989, was particularly important for program control -- stationing a CRS monitor at the port in addition to the CRS surveyor. Commodity distribution has gone much more smoothly since this recommendation was carried out.

USAID satisfied itself that there was adequate progress on the recommendations made by Price Waterhouse and in December 1988 requested that RIG audit the CFP to provide an independent appraisal of the systems installed by CRS and GOM entities involved with Title II. The report under discussion resulted from that request.

During the development of the CFP in 1987, USAID ensured that the proposed number of CRS monitors (eleven) was sufficient to allow quarterly visits to each of the 2,160 planned centers and work sites, a substantial increase in the intensity of monitoring from the earlier pre-CFP period when the two monitors could not even visit each of the 300 existing centers annually. Monetization funds paid for the CRS monitors as well as vehicles, accounting documents, and quarterly audits of the monetization activities. In addition, USAID funded technical assistance in January 1988 to the Ministry of Social Affairs (MAAS) for improving its logistical system, commodity management practices and other forms of control. The recommendations of this consultant were incorporated into the CRS-MAAS implementation agreement. Some of the recommendations, such as providing improved accounting documentation and improving warehouse conditions, have had a major positive impact on commodity control.

This brief introduction shows that USAID and CRS have been very serious about installing the necessary accounting and internal controls for good management of the Title II program. While we find a couple of the draft audit report recommendations are useful, we believe that most are based on faulty analysis and are counterproductive. The analysis of claims is extremely misleading, using a description of problems existing eight years prior to the CFP to give the impression that the situation has not significantly improved. This section of the report inflates the quantity of outstanding claims by including $700,000 in claims that have already been resolved. Most of the claims that are actually outstanding were made for losses that occurred before the CFP management systems and financial controls were installed. The report ignores this important point in its efforts to sensationalize a problem that is being adequately addressed.

Recommendations for suspending shipments or requiring large payment by CRS are counterproductive and potentially threatening to A.I.D.'s world-wide collaboration with an important PVO as well as to the U.S. - Moroccan bilateral relationship. In order for the Compensatory Food Program to succeed, it must ensure that Title II commodities are distributed to the beneficiaries during the three and a quarter years of the program. Suspending shipments will hurt the beneficiaries without improving program management. In contrast, the management improvements we have already installed actually work -- to the benefit of the benefiaries, the GOM, CRS and A.I.D. alike.

CRS has committed a large amount of its resources and staff to planning, managing and monitoring the CFP. USAID has worked in partnership with CRS, which was initially reluctant to take the program and the political risks associated with acting as cooperating sponsor for a program of this magnitude. Recommendations to collect payments from CRS for imperfect management of food and local currency violate the spirit of the AID-PVO partnership and would dissuade other PVO's from cooperating with AID on similar large development activities. CRS has shown no signs of willful mismanagement or incompetence. Penalizing the organization serves no useful purpose; rather, it would be destructive.

USAID and CRS wish to further refine the controls put in place to ensure good management of the Compensatory Food Program. We had hoped the RIG Dakar draft audit would help us achieve this objective. We are profoundly disappointed that the draft audit report contains recommendations that will be harmful to implementation of the program, all the more so because we had previously advised the auditors of our concerns about their recommendations during lengthy discussions in the exit review. We are frankly stunned by audit recommendations - some of which are not based on A.I.D. handbooks, policies, or guidance - that denigrate the best efforts of a competent cooperating agency.

Our responses to individual recommendations will demonstrate the serious efforts made by A.I.D. and CRS to install management systems and financial controls, the rigorous compliance with A.I.D. policies and guidance, the progress made in curbing program losses, and the relatively small amount of current loss compared with program size and complexity. RIG Dakar should re-examine its recommendations in light of the information provided herein and the real world management and control problems of a program which we hope will continue to serve one million needy people.

ηc

Recommendation Number 1: Claims

Mission Comment: Eliminate entire section and re.ommendations from audit report

Outstanding claims against third parties total $985,000, not $1.7 million

USAID objects to the figure of $1.7 million in reference to outstanding claims. This figure is used only to sensationalize and has nothing to do with the real value of outstanding claims, which was $985,000 at the time of the audit. A small number of claims were closed by the current Mission Director and a larger number by previous Mission Directors, but these actions are not relevant to the amount of currently outstanding claims. During thirty years of programming Title II in Morocco, CRS has made hundreds of claims against third parties, attempting to collect or settle on a case by case basis in accordance with A.I.D. policy and procedures. If any of the claims which were previously closed were dealt with incorrectly, the auditors should make and justify such an assertion. The Mission maintains extensive documentation to support its decisions.

Program losses are minimal under the Compensatory Food Program

The management controls instituted by the Compensatory Food Program have significantly cut losses, giving the program an excellent loss rate. Prior to the Compensatory Food Program, the commodity loss rate was acceptable relative to other Title II programs, 2.1 percent for the years 1983 to 1987. It is generally agreed that a 2 percent loss rate is acceptable for a Title II program. The percentage of losses has decreased significantly since the Compensatory Food Program began. Under the CFP, losses have been kept to one half of one percent of the program value. In fact, we know of no other Title II PVO program administered by a host government with the scale and complexity of the CFP that has a lower loss rate. The following table shows the progress that has occurred in limiting losses under the CFP.

Title II Losses Prior to and During the Compensatory Food Program

Fiscal Year	Losses ($ million)	Program Value ($ million)	Losses/Program Value (percent)
Pre-CFP 1983 to 3rd quarter 1987	1.017	48.632	2.1
CFP 4th quarter 1987 to 1989	.262	47.720	.5

Claims are a tool to minimize losses

The Mission views claims as a serious matter, not just because they are an obligation to the US Government, but also because they are critical for engaging the Government of Morocco in a dialogue on improving commodity management. USAID measures success in pressing claims against third parties by decreases in the quantities of commodities lost, spoiled or misused. As noted in the introduction, USAID is proud of our progress in building a system

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to minimize losses, and we believe that our seriousness of purpose in pursuing claims has contributed to this progress. Our objective is to make permanent, durable management improvements, and we are succeeding.

USAID has taken actions to prevent thefts and unauthorized distributions

Prior to the Compensatory Food Program, in June 1987 USAID initiated a RIG IIS audit to investigate charges of misused commodities in Tangier. As a result of this audit, which took place in October 1987, USAID and CRS gained the agreement of GOM to take disciplinary action against any officials found misusing commodities. While such misuse of PL 480 commodities for personal profit is rare, officials have been fired and jailed. In addition, at USAID's urging the GOM issued a directive to all provincial Governors insisting that Title II commodities be distributed only to approved recipients. These measures have significantly reduced the number of unauthorized distributions.

USAID is particularly concerned by preventable losses, for example some of the losses identified by the RIG during its investigation in Tangier. We will work with CRS to assure that cases identified continue to be closely examined by high levels of the GOM, that appropriate actions are taken to prevent such incidents from recurring and that satisfactory settlements are reached. When, for example, the GOM disciplines responsible employees, the message is heard throughout the distribution system. We consider disciplinary action a legitimate part of settlement.

USAID and CRS seriously pursue claims

We object to the implication by the audit report that the Mission and CRS do not seriously pursue outstanding claims. The reason we have not closed the file on $985,000 in claims is that we believe they are worth pursuing. Since 1986, the Mission has closed the files on $76,000 in claims, all of which occurred before the Compensatory Food Program began. We have thoroughly documented our justification for closing the file on these claims, which we believe were uncollectable.

USAID believes that CRS may achieve some measure of success in collecting claims if it pursues the GOM even more vigorously. We explored using monetization proceeds to pay claims, but both the Regional Legal Advisor and GC/CP have concluded that this action would not be legally permissible. We have recently raised consideration of claims problems to a higher level of the GOM, and the Ministry of Economic Affairs has established a working group to responsibly address the issue of claims.

Both in pursuing and in closing claims, USAID has followed A.I.D. regulations to the letter. We will continue to do so. The applicable guidance from Handbook 9 is the following:

"8E. Establishment and Follow up of Claims against Third Parties

"1. Cooperating Sponsor's Responsibility

"d. If settlement has not taken place within a reasonable time, the Food for Peace Officer forwards to the Mission Director, through the Mission officer responsible for fiscal management, a recommendation for further action. This recommendation may be for the Mission to:

"(1) Institute claims action against the cooperating sponsor if it has failed to make every reasonable effort to pursue collection or has failed to provide for the right of CCC to assert the claims or,

"(2) Close the file against the cooperating sponsor after finding that the cooperating sponsor has exhausted all reasonable attempts to collect the claims.

"2. Mission Responsibility

"a. The Mission may assume responsibility for the collection of third-party claims when requested by the cooperating sponsor.

"b. Where recovery cannot be effected, the Mission may approve a settlement for less than the full amount subject to the same limitations in 8D5.

"8C2d. No claim shall be asserted (against the cooperating sponsor) unless for each such claim it is determined that the loss, damage or misuse could have been prevented by proper exercise of the cooperating sponsor's responsibility under the terms of the pertinent Food for Peace Agreement.

"Normal commercial practices in the country of distribution are to be considered in determining whether the cooperating sponsor failed to exercise its responsibility.

"8D. Establishment and Followup of Claims Against Cooperating Sponsors

"1. Asserting a Claim

"In asserting a claim against a cooperating sponsor, considerations should be given to the humanitarian objectives of the program, limitations in administrative capabilities and financial resources of distributing agencies, and the difficulties inherent in distributing food within less developed countries... "

Audit report is at variance with A.I.D. guidance

The audit recommendations are not in conformance with A.I.D. guidance. There is nothing in the guidance referring to 90 days as a reasonable period of time to settle claims, nor is there anything referring to suspending shipments if claims cannot be settled. Furthermore, we believe that a recommendation to suspend shipments in order to fully collect claims is very far from the spirit of the claims guidance, which allows settlements for a portion of the claims, if they cannot be fully collected. Finally, we consider a recommendation to suspend shipment if all claims are not fully collected within 90 days to be irresponsible, given both the program's humanitarian objectives of channelling food to the poor in a limited period of time and the program's success in minimizing losses. If this recommendation were implemented, we are certain that the claims could not be fully collected, and it is the beneficiaries who would be hurt. During the last year of the Compensatory Food Program, these recommendations are counterproductive. We ask that they be removed from the report.

The prospect for fully collecting claims is not good

While USAID takes very seriously our responsibility to ensure that all reasonable measures have been taken to pursue claims, the prospect for fully collecting claims is not good. Previous USAID Morocco Directors have concluded it is practically impossible to collect on claims for losses in Morocco. The World Food Program has not been able to do so. Commercial importers of food take out insurance rather than face the prospect of attempting to collect on claims from the GOM. The ports and transport facilities are controlled by the Government and feel little responsibility to pay for losses. The budgets approved by Parliament for the Ministries responsible for distributing the food contain no line items to cover potential losses.

Under Stand-By Agreements with the IMF and the Structural Adjustment Program with the World Bank dating from 1983, the GOM has been forced to cut its investment budget and has strictly controlled recurrent costs to reduce its budget deficit. That deficit has been reduced from 14.5 percent of GDP in 1981 to 4.5 percent of GDP in 1988. The GOM cannot pay almost $1 million in claims without taking funds away from other activities. Under these circumstances, Parliament will not appropriate funds to the Ministries implementing the CFP for repayment of claims. It is certain that either services to Title II beneficiaries would be reduced or monitoring would be reduced, if the Ministries fully repaid the claims. The CFP program cannot afford a reduction of program services. We therefore oppose the recommendation of the audit report requiring full repayment of the $985,000. Instead, we will work with CRS to negotiate each claim on a case by case basis.

CRS has been successful in making non-monetary settlements

Satisfactory non-monetary settlements have been reached for losses that have occured under the CFP. For example, the Ministry of Health found that approximately 50 MT of actamine, a weaning food exchanged for Title II NFDM, was unfit for human consumption. Rather than be faced with reimbursing the USG for this loss, it gained the agreement of the manufacturer to replace the spoiled actamine. This case is evidence of the seriousness with which program administrators take ensuring that commodities are distributed as planned to intended beneficiaries.

Conclusion

USAID will continue to adhere to the letter of A.I.D. guidance on claims.

Recommendation Number 2: Foregone Interest on Monetization Funds.

Mission Comments: Eliminate recommendation 2a. We accept recommendations 2b and c.

USAID agrees with the draft Audit Report that monetization funds could have provided useful interest income, if idle funds had been invested in interest-bearing accounts. We believe that CRS acted responsibly, however, since A.I.D. guidance on this issue was not clear and financial needs could not be adequately determined until the second year of the program. We see no reason to fine CRS for poor management, as recommended by the draft Report.

A.I.D. guidance was unclear until November 1988

While monetization funds were first generated from the sale of wheat between December 1987 and February 1988, no official guidance existed at that time requiring that these funds be deposited into an interest-bearing account. A.I.D. guidance on this issue for other programs was contradictory, with some programs requiring interest bearing accounts and others forbidding it. CRS officials received written worldwide instructions from their headquarters not to put grant funds into an interest bearing account. Thus, they deposited the monetization funds generated in late 1987 and early 1988 into a non-interest bearing account.

In early 1988, USAID was uncertain of the proper procedures as well. Extrapolating from the guidance on host country owned local currency (PD 5, as revised), in June 1988 we advised CRS by letter to deposit the monetization funds into an interest-bearing account and to use the interest for program activities.

CRS noted that PD 5 applied only to host country-owned local currency and not to monetization funds. Because CRS had no past experience with this issue (USAID had not asked CRS to put the proceeds from sales of 2,000 metric tons of Title II milk in FY 1986 into an interest-bearing account), and because it lacked specific instructions from its headquarters and AID/W, it held several discussions with USAID to decide upon the next steps. The working group knew that AID/W was close to completing the Monetization Field Manual which would provide the specific guidance required. Therefore, the group decided that CRS should prepare for, but not actually open, an interest bearing account until the Monetization Manual was received.

In July 1988, CRS retained a lawyer to determine if in accordance with its country agreement, as a non-profit organization, it had the right to receive interest on its deposits. In some countries, governments forbid CRS from earning interest on its funds. The attorney concluded that CRS could earn interest in Morocco, but that monetization proceeds should be placed into a time deposit account, since interest-bearing checking accounts are forbidden by Moroccan law.

In August 1988, CRS contacted three banks in order to determine the best available rate of return. These banks responded in September and October, and CRS made its preliminary selection.

In October 1988, the Mission received official guidance from Washington that stated that monetization funds must be deposited into an interest bearing account. CRS received this guidance, contained in the Monetization Field

Manual, from its headquarters in November. Satisfied that this guidance had the support of AID/W and CRS headquarters, CRS/Morocco made the first deposit into an interest-bearing account in December.

CRS deposited monetization funds into an interest-bearing account when it could reasonably project CFP financial requirements

While the Compensatory Food Program began during the last quarter of FY 87, the full three and a quarter year program was finally "officially" approved only in February 1988, following lengthy discussions in the Food Aid Subcommittee of the DCC in Washington. In its operational plan, CRS had projected significant start-up costs for FY 87 and FY 88. While most of these costs have been incurred, payment has been slow due to delays in signing implementing agreements. Following DCC program approval, CRS had to negotiate agreements with each partner Ministry for both implementation and use of monetization proceeds. In October 1988, CRS and the Ministry of Handicraft and Social Affairs (MAAS) signed an implementation agreement. At this point, CRS knew that the funds budgeted for the Development Support Fund of MAAS would not be needed for the next six months. It therefore deposited these funds into an interest-bearing account.

Significant policy differences on use of monetization proceeds between the USG and CRS on one hand and the GOM on the other, led to a delay in signing the use of monetization proceeds agreement for MAAS until March 1989. No monetization funds were provided to MAAS before this date. CRS was uncertain when the MAAS agreement would be signed and did not want to tie up funds in a blocked interest-bearing account that might be needed immediately, following signature of the agreement. MAAS was expected to immediately request reimbursement for expenditures incurred once the agreement was signed.

In March 1989, CRS deposited additional funds into the account, once it had established a monetization budget for MAAS. These funds were equal to the requirements of the FY 90 budget for all components of the Compensatory Food Program. Enough funds were kept in the checking account to cover requests for reimbursement of program costs expected to be processed over the following six months, i.e. FY 87, 88 and 89 expenses.

Payments to the Ministries were slow until they learned correct procedures for requesting reimbursement

At the time of the audit (June 1989), the first vouchers of MAAS were beginning to be processed. Since that time, CRS has made a large number of payments. This situation results from the fact that the monetization use agreement for MAAS was only signed in March 1989 and that MAAS had to learn the exact procedures to follow in submitting vouchers. On the other hand, payments to Promotion Nationale (PN), another GOM partner, amounted to a much greater percentage of its approved budget, since the PN monetization agreement was signed in August 1988.

Conclusion

The above summary of events convinces USAID that CRS acted responsibly in managing monetization funds. We oppose penalizing CRS for any theoretical loss to the program because we are convinced that CRS did not act irresponsibly.

As noted in the introduction, this recommendation violates the spirit of the A.I.D.-CRS partnership worldwide and is unjustly punitive to an organization that cooperated with A.I.D. and displayed no willful mismanagement. We ask that recommendation 2a be eliminated from the report.

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Recommendation Number 3: Taxes and Duties

Mission Comments: Eliminate entire section and recommendation from report.

Payment of taxes with monetization funds is not prohibited by A.I.D. monetization guidance

The Auditors' recommendations concerning taxes and duties on goods procured with monetization funds are based on the erroneous assumption that payment of such taxes and duties is an unauthorized use of monetization proceeds.

Section III H-8 of the Agency's Monetization Field Manual carefully distinguishes between Title II commodities provided for direct feeding programs and Title II commodities imported for monetization purposes. The guidance provides that Title II commodities imported for monetization purposes may be taxed by the host government, even though taxation of commodities imported for distribution through direct feeding programs is prohibited. The distinction drawn is that commodities imported for free distribution represent US charitable contributions for humanitarian objectives, and this rationale is "less appropriate" for commodities imported for monetization. The monetization guidance goes on to specify that cooperating sponsors may attempt to negotiate with host governments the tax-free import (or sale) of commodities for monetization purposes, but are not required to do so. The guidelines do not specifically address the issue of whether or not monetization funds may be spent on taxable purchases. The clear implication of the guidance on monetization, however, is that commodities imported for monetization purposes, and the proceeds of sale of those commodities, are not to be considered as if they were US food aid and that purchases made with monetization funds, therefore, may be subject to host country tax. The monetization guidance further specifies that expenditures of monetization funds should be made in accordance with OMB Circular A - 122 (Section III G); Attachment B to OMB Circular A - 122 states that taxes which a grantee is required to pay are allowable expenditures, unless the grantee is exempted from taxes by host country law or by agreement with the host country.

CRS has made all reasonable efforts to gain duty and tax free privileges

In 1959 and 1966, CRS negotiated agreements with Entraide Nationale which purported to ensure duty-and-tax-free privileges for CRS. These agreements have been repudiated by the GOM's tax authorities. For the past three years, CRS has been negotiating an agreement with the Ministry of Foreign Affairs that will ensure such privileges. The Ministry has told CRS it would not be able to consider the final version before December 1989. As the Auditors should know, it is A.I.D. policy that grantees negotiate their own bilateral agreements with the governments of host countries, since the nature of a grantee relationship requires that the USG maintain a hands-off posture vis-a-vis a grantee's relationship with a host government. As Section 123 of the FAA states, "it is in the interest of the United States that [PVOs] expand their overseas development efforts without compromising their private and independent nature."

CRS cannot claim tax exemption under the USG-GOM bilateral agreement

Because a grantee acts as an independent agent, not as a representative of the USG, goods purchased in country by a grantee and goods imported by a grantee for its own activities in Morocco are not covered under the terms of the USG - GOM Economic, Technical and Related Assistance bilateral agreement of April 2, 1957 which affords the USG and its contractors the privilege of importing and purchasing program commodities duty-and-tax-free.

Conclusion

As to the three specific sub-recommendations:

a. Since CRS is not prohibited from using monetization proceeds to pay taxes under applicable agency guidance, it would be inappropriate for A.I.D. to require CRS to pay back such taxes. Moreover, witholding monetization funds from CRS to cover taxes which have been paid would not be an allowable use of monetization funds. Under Subsection 207 (c) of PL 480, monetization funds may be used only to "transport, store, distribute and otherwise enhance the effectiveness of the use of [donated] commodities ... and to implement income generating, community development, health, nutrition, cooperative development, agricultural programs, and other developmental activities." The proposed witholding of monetization funds does not fall within this list of authorized uses.

b. Unless and until CRS is able to negotiate a binding agreement with the GOM concerning taxes and duties, the use of monetization funds for taxes and duties must be considered an allowable expense under OMB Circular A-122, and eligible for reimbursement.

c. Since there are no "prior agreements" between A.I.D. and the GOM governing taxes and duties on purchases by a cooperating sponsor using monetization funds, A.I.D. cannot now propose to hold the GOM to conformity with "prior agreements." Nor, given the importance of the independent nature of the grantee relationship, should A.I.D. attempt to force the GOM to allow tax-free procurements with monetization funds.

Recommendation Number 4: Storage, Accounting, and Monitoring

a) Storage and accounting

Mission Comments: We accept this recommendation, provided the text of the audit report is amended to present a fair and accurate summary of the situation per the comments which follow.

USAID and CRS have made significant efforts to improve storage conditions

As part of its efforts to improve program controls, CRS and USAID have taken steps to improve storage conditions. We want to accelerate the pace at which these improvements are implemented and we are working with the GOM to this end.

Even prior to the development of the Compensatory Food Program (CFP), USAID had gained Washington approval to furnish provincial warehouses of Entraide Nationale (EN) with pallets using funds from the monetization of Title II milk in FY 86. A management study commissioned by USAID in January 1988 recommended improving overall storage conditions at EN provincial warehouses. The CFP operational plan approved in February 1988 states that monetization funds would be used to make these improvements.

In July 1988, CRS staff surveyed warehouse conditions for all three Ministry partners and recommended improvements. The monetization agreements signed with MAAS and Promotion Nationale in 1989 provided funding for repairs at the provincial warehouses. CRS is working with the Ministries to select firms to undertake the repairs. Repair work is either underway or will begin shortly in all provinces.

In July 1988, the Price Waterhouse "Review of Internal Accounting Controls," commissioned by USAID, recommended improving storage conditions in the Ministry of Health warehouses. The Ministry requested monetization funds for this purpose, and USAID has urged CRS to accept this request so that Washington can approve the appropriate program changes. CRS says it will do so. We expect that Ministry of Health warehouse repairs will take place early in 1990.

Repair of local warehouses cannot be completed during the life of the CFP

We agree that local (as distinct from provincial) warehouses need to be improved, but we must point out that the CFP is carried out through in 2,160 centers and distribution points, most of which hold only a few sacks of food at a time. Repairs of all of these warehouses cannot be done within the life of the CFP nor would it make economic sense to do so. CRS has kept the GOM informed of the state of these warehouses through its field trip reports and has asked the GOM to improve conditions. USAID will monitor this situation closely to ensure that the important problems are resolved quickly.

CRS has greatly improved the accounting for the Title II program

CRS has done an excellent job of improving the accounting for Title II commodities in the field since the advent of the CFP. Following a recommendation of the USAID commissioned January 1988 management study, CRS used monetization funds to provide improved registers and accounting documents to Entraide Nationale. Later, it funded similar documents for the Ministry of Public Health. During their field visits, CRS staff work with monitrices and accountants to ensure that they understand and follow proper accounting procedures. The Ministry of Social Affairs School of Nutrition has provided two week training courses to monitrices in proper accounting procedures.

We are concerned by cases where the provincial accountant takes on the role of warehouseman. CRS has pointed out this problem wherever it exists to the GOM and has asked that additional personnel be hired. However, continuing government-wide budget austerity has all but eliminated the GOM's ability to hire new personnel. Nevertheless, USAID will make this matter a point of discussion during our talks with the GOM on phase-out of the Title II program, but we cannot promise that the situation will be remedied fully during the life of the CFP.

b) Monitoring

Mission Comments: We accept this recommendation.

Recommendation Number 5: Conflict of Interest

Mission Comments: Eliminate the section and recommendation from the report.

USAID agrees with the audit report that the federal anti-nepotism law is not applicable to employees of a grantee PVO. It is our understanding that CRS headquarters hired both the CRS/Morocco Director and his wife, the latter of whom is the head of the PL 480 Title II program. It was not the CRS Director who did the hiring. If RIG wishes to pursue this matter, it may wish to request AID/W to consult with CRS headquarters on its worldwide personnel policies and hiring procedures.

We note that the audit report complemented CRS for its financial records and accounting. The Mission monitors CRS financial practices through a quarterly audit report prepared by the international accounting firm of Price Waterhouse. Another report by Price Waterhouse commissioned by USAID, "Review of Internal Controls," concluded that CRS internal controls over monetization funds were sound.

Recommendation 6: GOM Financial Contribution

Mission Comments: Eliminate this section and recommendation from report.

Program monitoring is more effective than financial reporting in determining GOM support

It is USAID policy, established in a Mission Order, to assess the GOM contribution to A.I.D.-funded projects through program monitoring rather than through financial reporting. This approach enables us to determine how well the GOM is supporting the projects and whether its support is timely. With this information, we take action on any program deficiencies resulting from insufficient GOM input. Financial reports would not give us enough information to take appropriate action. The GOM financial system is so complex that information that has been provided to the Mission on monetary transactions has been practically useless. In addition, the time required by the GOM to collect and assemble the information is so great (i.e. typically a one or two year lag) that the reports would not serve as a real-time, management tool.

CRS and USAID have an excellent monitoring system in place

CRS has developed an excellent program monitoring system, with quarterly visits to almost all of the 2,160 centers and work sites as well as the 120 provincial offices. USAID monitors the program on a regular basis as well, both through field visits and reporting by CRS. This double monitoring provides an excellent idea where problems exist and to what they are attributable. If these problems are caused by insufficient GOM funding, we can follow up with the GOM. Through routine meetings with the Ministries involved and the Steering Committee, we can address these problems immediately. No financial reporting could be detailed enough or timely enough to allow us the same quality of program control.

Conclusion

The audit report's recommendation on this issue, while well intended, will not contribute to improved program management. It would lead to the creation of wasteful paperwork. We ask that the entire section be deleted from the report.

Finding 7: Compliance and Internal Controls

Mission Comments: Remove this section from the report.

This section repeats comments made earlier in the report from the sections we have shown need to be removed. It makes no recommendations, so we ask that it be removed from the report.

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8. Other Pertinent Matters

a. Passenger vehicles

Mission Comment: Eliminate this section from the report.

Passenger vehicles are necessary for GOM program monitoring

It is evident that GOM monitoring of program operations is essential for efficient management. To ensure that the GOM passenger vehicles procured with monetization funds are used "to enhance the effective use of PL 480 commodities," CRS staff frequently accompany GOM representatives monitoring the program. In addition, CRS maintains a log to insure that the vehicles are only used for purposes associated with monitoring or managing the CFP.

Given the fact that the Title II program is phasing out, leaving the GOM responsible for administering the existing programs, the passenger vehicles serve an important economic development purpose. These vehicles will be essential for program management and monitoring by the GOM when CRS no longer is responsible for monitoring. We ask that the comments on passenger vehicles be deleted from the report.

b. Per Diem Costs

Mission Comment: Eliminate this section from the report.

Per diem costs are not salary supplements

The draft audit report asks that payment of per diem costs for GOM officials monitoring the CFP be discontinued. It labels these costs "salary supplements." USAID is firmly opposed to funding salary supplements. Per diem costs are not salary supplements, however. According to A.I.D. policy guidance on criteria for payment of salary supplements for host government employees (88 State 119780), "per diem is permissible for program or project-related activities provided any such reimbursement is paid at the HG rate, U.S.G. rate or on an actual cost reimbursement basis. Per diem (is) not considered (a) salary supplement." Since per diem is paid by CRS at the GOM rate, we conclude that CRS is in accordance with A.I.D. guidance.

Appendix

Compensatory Food Program Agreements

1. USAID-Ministry of Economic Affairs Memorandum of Understanding, signed April 8, 1988, amended September 29, 1989.

2. CRS-Promotion Nationale implementation agreement, signed May 25, 1988.

3. CRS-Promotion Nationale use of monitization proceeds agreement, signed August 6, 1988, amended February 24, 1989.

4. CRS-Ministry of Handicraft and Social Affairs (MAAS) implementation agreement, signed October 21, 1988.

5. CRS-MAAS use of monetization proceeds agreement, signed March 23, 1989.

6. CRS-Ministry of Public Health implementation agreement, signed June 29, 1988.

7. Ministry of Public Health-Société d'Exploitation des Produits Oleagineux (SEPO) agreement for exchanging Title II NFDM for Actamine, a weaning food, signed October 24, 1987, amended December 9, 1988, amended May 19, 1989.

8. CRS-Office National Interprofessionnel des Céréales et Légumineuses (ONICL) contracts for sale of wheat, signed August 12, 1988, November 2, 1988 and August 8, 1989.

Report Recommendations

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Recommendation No. 1 7

We recommend that the Director, USAID/Morocco:

a. *require the Catholic Relief Services to serve a ninety-day notice in writing to the cognizant Government of Morocco implementing agencies to settle the 75 outstanding claims totaling $985,589 (Exhibit 1); and*

b. *suspend further shipment of P.L. 480 Title II commodities unless the Government of Morocco makes a written commitment to the Catholic Relief Services to reimburse at least a substantial portion of the outstanding claims within the above ninety-day period.*

Recommendation No. 2 11

We recommend that the Director, USAID/Morocco:

a. *submit a bill for collection to Catholic Relief Services in the amount of DH 877,480 ($109,685) for loss of interest income from P.L. 480 Title II monetized funds;*

b. *require the Catholic Relief Services to establish quarterly cash requirements for expenditures under the monetization plan including estimates and uses of expected interest earnings; and*

c. *instruct Catholic Relief Services that the amount of monetized funds in the checking account be henceforth limited to these quarterly cash requirements and the remaining funds be placed in short-term interest bearing accounts.*

Recommendation No. 3 14

We recommend that the Director, USAID/Morocco, require the Catholic Relief Services to:

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a. *compute the amount of duties and taxes paid on all expenditures incurred under the monetization plan of the current P.L. 480 Title II program and withhold an equivalent amount from monetization funds;*

b. *reimburse net of duties and taxes all invoices submitted henceforth by the Government of Morocco participating agencies for expenditures incurred under the P.L. 480 Title II program; and*

c. *notify the Government of Morocco (GOM) in writing that further shipment of Title II commodities will be suspended unless GOM agrees to exonerate Catholic Relief Services (CRS) from duties and taxes on expenditures incurred under the P.L. 480 program in accordance with its prior agreement with CRS.*

Recommendation No. 4 19

We recommend that the Director, USAID/Morocco, require the Catholic Relief Services to:

a. *coordinate with the Government of Morocco in upgrading the provincial and local warehouses and food distribution centers by: providing adequate ventilation; improving hygienic conditions and equipment at the warehouses; installing fire extinguishers; and instituting proper segregation of duties and responsibilities at the warehouses and food distribution centers; and*

b. *interview selected food recipients of the P.L. 480 program periodically to determine their eligibility and whether they received their allotted rations.*

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Recommendation No. 5 21

We recommend that the Director, USAID/Morocco, in coordination with the Assistant Administrator, Bureau for Food for Peace and Voluntary Assistance, require the Catholic Relief Services (CRS) to eliminate the conflict of interest situation in CRS/Morocco's organizational structure so as to ensure the adequacy of CRS internal controls and the integrity of the P.L. 480 Title II program in Morocco.

Recommendation No. 6 24

We recommend that the Director, USAID/Morocco, obtain from the Government of Morocco periodic financial reports showing its agreed upon contributions and related expenditures under the P.L. 480 Title II program.

Appendix 3

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USAID/Chad	1
USAID/Congo	1
USAID/The Gambia	1
USAID/Ghana	1
USAID/Guinea	1
USAID/Guinea-Bissau	1
USAID/Liberia	1
USAID/Mali	1
USAID/Mauritania	1
USAID/Niger	1
USAID/Nigeria	1
USAID/Senegal	1
USAID/Togo	1
USAID/Tunisia	1
USAID/Zaire	1
RIG/I/Dakar	1
RIG/A/Cairo	1
RIG/A/Manila	1
RIG/A/Nairobi	1
RIG/A/Singapore	1
RIG/A/Tegucigalpa	1
RIG/A/Washington	1