

**NON-FEDERAL AUDIT REPORT  
CATHOLIC RELIEF SERVICES PL-480 TITLE II  
PROGRAM IN INDIA  
CALCUTTA AND COCHIN ZONES**

**AUDIT REPORT NO. 5-386-90-03-N**

**JULY 25, 1990**

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**Although food was being distributed to the needy, problems continue to exist in the CRS program in India--beneficiaries were receiving less food than the records indicated, commodity losses were not being properly reported, oversight reviews were not performed or were not thorough enough, known problems were not adequately corrected, and stored commodities were not properly protected. Also, due to various circumstances, Price Waterhouse disclaimed an opinion on the commodity statements, concluded that internal controls were not adequate, and stated that compliance with requirements was poor.**

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July 25, 1990

MEMORANDUM FOR D/USAID/India, Robert Bakley

FROM:   
Acting RIG/A/Singapore, Alfred M. Clavelli

SUBJECT: Non-Federal Audit of Public Law 480, Title II  
Program Administered by the Catholic Relief Services in India -  
Calcutta and Cochin Zones

Audit Report No. 5-386-90-03-N

The enclosed Price Waterhouse non-Federal audit report presents the final results of a financial audit of the Catholic Relief Services' (CRS) Public Law 480, Title II Program for two (Calcutta and Cochin) of the four zones in India. The audit report for the other two zones (Madras and Bombay) was issued in March of this year.

Under the Program in India, food commodities are donated to combat malnutrition, promote economic and community development, and provide food for the needy. After receipt in India, the commodities are despatched to CRS "Counterparts" who make further distributions to smaller organizations called "Operating Partners" for the actual distribution to beneficiaries. During the two-year audit period (fiscal years 1987 and 1988), CRS reported that 52,905 metric tons of food, valued at \$13.2 million, was distributed by its operating partners to about 600,000 beneficiaries under the MCH and FFW Programs in the two zones reviewed.

The audit was initiated at the Mission's request. The objectives were to determine if commodity statements for fiscal years 1987 and 1988 were accurate, internal controls were adequate, requirements were met, and known problems were corrected. The audit scope included a review of Program implementation practices in effect at the time of the audit in order to assist in formulating an opinion on operations and reports for fiscal years 1987 and 1988.

Price Waterhouse concluded that food was being distributed to the needy. However, because of certain limitations, it was not possible to express an opinion on the commodity

statements. Price Waterhouse did conclude that internal controls needed strengthening, that compliance with requirements was not satisfactory, and that known problems were not corrected. An overall summary of the audit results is provided in Part II of the report, and Part VI discusses the problems in detail under the following four separate but interrelated findings:

- Beneficiaries actually received less food than recorded, commodity losses were rarely reported, and attendance/inventory records did not reflect actual operations.
- Oversight reviews were not performed or were not thorough enough to ensure officials had a complete understanding of actual activities. Operators were also allowed to implement the Program in ways which were inconsistent with objectives and requirements.
- CRS did not provide adequate management attention to the Program, thereby allowing known problems to continue.
- Stored commodities were not adequately protected due to a lack of dunnage, leaking oil containers, torn sacks, improper rotation, and poor ventilation.

When informed of the problems in the first two zones (Audit Report No. 5-386-90-01-N), the Mission required CRS to immediately correct the deficiencies as a condition for continuing the Program, and CRS moved to remedy many of the problems. To illustrate, CRS alerted the operators in the two zones covered by this audit of 13 serious problems which had been identified. The operators were told that if similar problems existed, corrective action would be expected for the Program to be continued.

Such action improved the Program's effectiveness. In fact, the audit of these two zones disclosed many recent operations improvements over the first two zones. This indicates that with a higher level of management attention, CRS would be able to operate an effective Program.

To help improve the Program, Price Waterhouse made 15 recommendations. While CRS officials stated that they welcomed the recommendations as useful tools for improving the Program, they also stated that they regretted "the manner and methodology in which the audit was conducted" and that "many of the audit report's conclusions are unsubstantiated and based on speculations rather than fact." Additionally, they did not accept the report's opinions, believed the audit duration was too long, and questioned the qualifications of the Price Waterhouse audit team. CRS's comments are summarized after each finding followed by Price Waterhouse's rebuttal. The full text of CRS's comments is presented in Appendix E.

Mission officials fully concurred with the findings and the 15 recommendations. Their comments are included in Appendix F.

We certainly do not agree with CRS's position. The disclaimer of the opinion on the commodity accountability reports in Part III and the two adverse opinions in Parts IV and

V of the report are fully supported by Price Waterhouse in their report. Also, the comments added by Price Waterhouse after each finding adequately addresses all of CRS's pertinent comments relating to the individual findings. We would, however, like to comment on two of CRS's statements which were not related to a specific finding and therefore were not addressed by Price Waterhouse.

- The audit duration was not too long considering the size of the Program and the fact that the earlier audit of CRS had disclosed very serious problems. Field work started in September 1989 and was completed in November 1989. Although the results of the audit were thoroughly discussed with CRS officials, Price Waterhouse was directed to delay issuing the draft report until after CRS had an opportunity to respond to the problems identified in the earlier report. CRS responded to this earlier report in mid-March and in April Price Waterhouse issued the draft report for the two zones covered in this report.
- Price Waterhouse's auditors were very qualified to perform the review. The audit team was based in India and had extensive experience auditing voluntary organizations and other USAID activities. The senior people assigned to the audit team also performed the audit of the other two zones. Additionally, our office assigned a senior audit manager to provide continuous oversight throughout the assignment. It is our belief that Price Waterhouse's review was highly professional and more thorough than would have been feasible had our staff performed the entire audit.

Since CRS disagreed with most of the problems discussed in the report and since most of the problems had been repeatedly pointed out to CRS in the past but were not corrected, the Mission needs to be much more aggressive in its oversight. Accordingly, in addition to the recommendations made by Price Waterhouse, the following two recommendations (which are the same as the recommendations made in the earlier audit report) are being addressed to the Mission:

### Recommendations

We recommend that USAID/India:

1. Require CRS to prepare an Action Plan that will help ensure the Program is managed and operated in accordance with agreements. This Plan, at a minimum, should address commodity accountability and distribution, loss reporting, oversight reviews, management activities, Food-for-Work projects, and warehousing functions. The Action Plan should specifically show the corrective measures that will be taken to resolve the noted problems, include milestone target dates for completion, and require quarterly progress reports until fully implemented.
2. Within one year, based upon on-site testing and in conjunction with CRS, prepare a report to the Administrator that will clearly show the extent the Action Plan was implemented. If operations were not satisfactorily improved, the report should contain recommendations for limiting the Program in future periods.

These above two recommendations have been discussed with Mission officials who indicated full agreement. Since these recommendations are the same as the ones in the earlier report, we consider them resolved. They will be closed upon completion of the actions which need to be taken.

I appreciate the courtesies and cooperation the Mission extended to Price Waterhouse and our staff during the course of this audit. For your information, I requested Price Waterhouse to include a report distribution list (see Appendix H). Although the list is included in Price Waterhouse's report, the actual distribution is being made by our office.

Under the circumstances there is no need to specifically respond to this final report with the normal 30-day requirement. However, we need to be kept informed of the implementation status of the recommendations.

**PRICE WATERHOUSE REPORT ON  
NON-FEDERAL AUDIT OF THE CATHOLIC RELIEF SERVICES  
PL-480 TITLE II PROGRAM IN INDIA  
CALCUTTA AND COCHIN ZONES  
FOR THE PERIOD OF TWO YEARS ENDED SEPTEMBER 30, 1988**

**NON-FEDERAL AUDIT OF THE CATHOLIC RELIEF SERVICES  
PL-480 TITLE II PROGRAM IN INDIA  
CALCUTTA AND COCHIN ZONES**

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*Price Waterhouse*



July 17, 1990

Regional Inspector General/Audit/Singapore,  
U.S. Agency for International Development  
16 Raffles Quay, # 31-01  
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Dear Mr. Clavelli,

**NON-FEDERAL AUDIT OF CATHOLIC RELIEF SERVICES PL-480**  
**TITLE II PROGRAM IN INDIA - CALCUTTA AND COCHIN ZONES**

This report presents the results of the audit of Catholic Relief Services PL-480, Title II Program in the Calcutta and Cochin Zones for the fiscal years 1987 and 1988.

The background, audit objectives and scope, and the summary results of the audit are contained in Parts I and II of this report. Parts III, IV, and V include our audit opinions on the commodity accountability reports, the internal controls, and the compliance with laws and regulations. The related findings and recommendations are contained in Part VI, as supported by Appendices A to D.

The format used for this report is the same as that used for an earlier audit report on CRS-Madras and Bombay Zones, dated March 29, 1990 (No. 5-386-90-01-N). However, it is to be noted that CRS took corrective measures for improving the Program once problems were identified by the audit in the Madras and Bombay Zones. As a result, the problems were less prevalent -- especially those relating to measurement containers used for distributing commodities and warehouse conditions and practices.

The comments received from CRS officials are summarized after each finding and are presented in their entirety in Appendix E. In response to these comments, we provided certain additional information under the caption "Auditor's Comments" for each of the four findings in Part VI.

Mission officials concurred with the findings and recommendations. Their response is presented in Appendix F.

Yours faithfully,

*Price Waterhouse*

**NON-FEDERAL AUDIT OF THE CATHOLIC RELIEF SERVICES  
PL-480 TITLE II PROGRAM IN INDIA  
CALCUTTA AND COCHIN ZONES**

**PART I - INTRODUCTION**

**A. Background**

USAID/India engaged Price Waterhouse, New Delhi to perform a non-Federal financial audit of the Catholic Relief Services (CRS) Public Law 480, Title II Program in two of the four zones in India - Calcutta and Cochin. As a result of audit findings in the other two zones in India (Madras and Bombay), the subject of a report dated March 29, 1990 (No. 5-386-90-01-N), the Mission decided to perform this audit in CRS's two remaining zones.

Under the Title II Program, the United States Government donates food commodities to meet urgent relief requirements, combat malnutrition, promote economic and community development, and provide food for the poor and needy. The United States Government began supporting voluntary agencies in India with the promulgation of the Indo-U.S. Agreement. Under this 1951 agreement, donated Title II commodities are allowed duty-free entry into India and the Government of India provides for primary in-country commodity storage and inland transportation.

The commodities are supplied free of charge to CRS, a voluntary agency in India. CRS provides the organization and the administrative staff to distribute the commodities within India. CRS administers the Program through its Headquarters in New Delhi and its four zone offices in Bombay, Calcutta, Cochin, and Madras. Within the four zones, the Program operates largely through the Catholic diocese hierarchy.

The commodities are cleared through various Indian ports by Government of India appointed clearing and forwarding agents and despatched to CRS's "Counterparts" (CP). The CPs distribute the commodities to smaller organizations under their jurisdiction called "Operating Partners" (OP). The OPs do the actual food distribution to the beneficiaries mainly under the following two categories:

- Food-for-Work (FFW) - FFW is meant to provide wages partly in food to compensate laborers for a variety of jobs performed. FFW was created to provide jobs for the poor, increase agricultural production, improve the economic position and living standards of the poor, and promote community development. Commodities provided are bulgur wheat and oil. FFW activity represented approximately 20 percent of the Title II commodities distributed in the two zones covered by this audit.

- Maternal and Child Health (MCH) - MCH provides health and nutrition benefits to mothers and children through a periodic ration of food and health care follow-up. Commodities used are bulgur wheat, oil, and corn soya blend/milk. MCH activity represented approximately 55 percent of the Title II commodities distributed in the two zones covered by this audit.

The remaining commodities (25 percent) distributed by CRS were not part of this audit. A.I.D. Regulation 11 requires CRS to provide supervisory personnel to effectively implement, control, and evaluate the Title II activities and to make reviews, including end-use checks. Regulation 11 holds CRS responsible for improperly distributed commodities through any act or omission. It requires that CRS pay the U.S. the value of commodities lost, damaged, or misused unless it is determined by A.I.D. that such loss could not have been prevented by CRS under normal circumstances with reasonable care.

During the two-year period (October 1, 1986 to September 30, 1988) covered by this audit, CRS received shipments of around 158,000 metric tons of commodities valued at about \$40 million. The Calcutta and Cochin zones received approximately 40 percent of these commodities. In addition, a sizeable inventory of commodities was carried over from the prior period.

#### B. Audit Objectives and Scope

The audit objectives were to determine whether (1) CRS's commodity statements presented fairly the results of operations in accordance with generally accepted accounting principles; (2) CRS and its related CPs and OPs established adequate internal controls over the operations; (3) CRS and its related CPs and OPs complied with applicable laws, regulations, and agreement provisions; and (4) adequate actions were taken to rectify problems identified in previous audits conducted by the A.I.D. Office of the Inspector General and CRS's New York internal auditors.

The audit covered operations at CRS's offices in New Delhi and two of the four zones - Calcutta and Cochin. Within the two zones, the audit covered various CP and OP activities. Field reviews were basically made at 20 of the 58 CPs and 115 of approximately 2,500 OPs. Within this sample, visits were made to selective project sites for OPs operating in more than one location. The criteria followed for selecting the CPs and OPs for field review included earlier review/internal audit findings, beneficiary levels, accessibility, and past history of operations. This effort was adequate, in our opinion, to provide an understanding of CRS's operations in the two zones audited.

The audit covered records of fiscal years 1987 and 1988 and also covered 1989 wherever considered necessary for observing Program activity and examining related records as practicable. Results of the reviews of Program implementation practices during 1989, which form an important part of the audit observations, were considered in formulating an opinion on operations and reports for fiscal years 1987 and 1988. Field work for the review took place during September through November 1989.

The audit was performed in accordance with the "Standards for Audit of Governmental Organizations, Programs, Activities, and Functions" (1988 revision) and accordingly included such tests of the records and such other auditing procedures as we considered necessary to accomplish the audit objectives.

**NON-FEDERAL AUDIT OF CATHOLIC RELIEF SERVICES  
PL-480 TITLE II PROGRAM IN INDIA  
CALCUTTA AND COCHIN ZONES**

**PART II - SUMMARY RESULTS OF AUDIT**

CRS established a system for distributing large quantities of Title II-donated food to needy people and prepared, as part of its reporting requirements, two important commodity statements to provide management with information about the distributions - the Commodity Status Report and the Recipient Status Report. The reports for fiscal years 1987 and 1988 which were submitted to the Mission to account for commodities and to show operational results have been summarized and included in Appendices A and B of this report. Due to certain limitations associated with the audit, as explained hereunder, it was not possible to determine whether the commodity statements were reasonably accurate. However, we did conclude that internal controls needed strengthening, compliance with applicable requirements was not satisfactory, and known problems were not always corrected in a timely manner.

There were problems of varying degrees at the 20 CPs and 115 OPs visited but they were not as severe or as extensive as those noted during the audit of the Madras and Bombay Zones. For example, only one OP under a CP in the Calcutta Zone and a CP in the Cochin Zone were under investigation by CRS and we were requested to exclude them from our review (see Appendix C for details).

Although the various problems which were disclosed detracted from the Program's effectiveness, food was still being provided to the needy. However, since we were unable to determine whether the commodity statements were reasonably accurate and since other problems indicated questionable distributions, it was not possible to determine the amount of food actually reaching the "targeted" beneficiaries. The reviews performed at the various locations did reveal that information being reported was apparently generated to make sure that the commodities recorded as being received plus the inventory on hand, reconciled with records showing distributions to an approved number of targeted beneficiaries, at the approved ration rates. The supporting records in some cases appeared to have been prepared without regard to actual operations, and although it was not possible to quantify the impact thereof on the status reports, the audit revealed instances of operations not being accurately reported, oversight being deficient, and known problems not being corrected.

Following the audit in Madras and Bombay Zones, CRS alerted the CPs in Calcutta and Cochin Zones of the problems which had been identified. The CPs were told that if similar problems existed, corrective action would be expected for the Program to be continued. While these corrective actions were commendable, they precluded us from relating 1989 Program implementation practices to procedures which may have been followed during

fiscal years 1987 and 1988. Additionally, in the Calcutta Zone since many of the FFW projects had been completed at the time of the audit or had stopped due to the monsoon season, it was not possible to physically observe an adequate level of on-going FFW activity, representing 20 percent of commodities distributed during fiscal years 1987 and 1988, with a view to assessing accuracy of information reported.

The problems associated with the two status reports are discussed primarily in Finding A, Commodity Distributions and Accountability (see Part VI of this report). This finding as well as the other findings in this report are interrelated and indicate internal control and compliance problems (see Parts IV and V for audit opinion). For presentation purposes consistent with the format used for the report on Madras and Bombay Zones, the findings have been separated into the four different areas summarized below:

- Commodity distribution could not be confirmed as always correct or accurately accounted for by the CPs and OPs. The quantities distributed were insufficient as a result of incorrect measurement containers and improper distributions at certain OPs, but the records indicated correct and proper distributions. Also, losses were generally not reported by some CPs and OPs and instead shown as consumption, and records in those CPs and OPs did not appear to reflect actual operations. Thus, the reliability of information reported to USAID was questionable and there was not adequate assurance that the targeted beneficiaries received the reported amount of commodities (see Finding A).
- CRS's oversight activities require certain improvements to make reviews more effective and reliable. Reviews were very cursory or were incomplete in certain important aspects. Thus, while various problems existed, they were not disclosed and reported to enable timely corrective action (see Finding B).
- CRS did not provide adequate management attention to areas such as correction of known problems, FFW projects, compliance with requirements for fees charged beneficiaries, cash controls, recovery of claims, adequacy of publicity, Government of India's certification requirement, and determination of appropriate Program locations. Consequently, various operational aspects of the Program were in need of improvements (see Finding C).
- Despite corrective measures recently implemented by CRS, commodities were not being properly stored at certain locations. Storage problems included lack of dunnage/segregation/proper stacking, poor rotation, unrepaired containers, and infestation. Consequently, commodity storage and protection aspects of the Program were in need of further improvements (see Finding D).

Details on each of these findings are presented in Part VI of this report. In addition, the results of our review at four CPs, including two CPs where the fewest problems were noted, are presented in Appendix D to provide a more complete understanding of the problems disclosed during the audit and also to demonstrate that the Program can operate effectively given the necessary attention.

To help correct the problems noted, 15 recommendations are provided in this report. In response, CRS stated that it "welcomes the recommendations contained in the RIG non-federal audit report as useful tools for improving its Title II program in India." However, while welcoming the recommendations, CRS officials also stated that they regretted the manner and methodology in which the audit was conducted, found the audit unduly prolonged and not always helpful, found the report excessively negative with many comments being unsubstantiated or based on speculation, and believed the auditors did not have adequate experience in Title II activities.

Without being specific, CRS stated that the report does contain many examples of deficiencies and that CRS does accept that "some" of these weaknesses exist. Although CRS stated it would welcome realistic suggestions for resolution, the officials also stated that "some" of the issues identified by the auditors as deficiencies resulted from misunderstandings on the part of the auditors.

In their response to the individual findings, CRS took exception to the majority of the problems which were found despite its concluding assertion (see our page number 15 in Appendix E) that "Corrective actions have already been initiated to mitigate the weaknesses identified in the report." Considering the other statements made by CRS, the thoroughness in which CRS will implement the necessary improvements is unclear.

Throughout the course of this audit and on several occasions at its conclusion, CRS was provided details on the audit findings. Also, CRS representatives were present during all field visits. Therefore, it is very surprising that CRS believes the deficiencies were unsubstantiated, based on speculations, or resulted from the auditors' misunderstandings. Consequently, to help ensure adequate corrective measures are actually taken and thereby avoid the same problems from recurring each year (as has been occurring), we believe CRS needs to view the audit findings more seriously. Also, considering the general disagreement to the audit findings expressed by CRS, Mission officials will need to be especially cautious when closing the recommendations in order to ensure that corrective actions are fully implemented.

**CRS's comments are presented in their entirety in Appendix E. We fully considered these comments in preparing this report. CRS's comments pertinent to the findings are also summarized after each finding, followed by additional auditor's comments which refute CRS's nonconurrence.**

**Mission officials stated that they concurred with the findings and the recommendations. Also, during the course of the audit, Mission officials were actively involved in requiring CRS to implement immediate corrective actions. Their comments are presented in Appendix F.**

*Price Waterhouse*



**NON-FEDERAL AUDIT OF CATHOLIC RELIEF SERVICES  
PL-480 TITLE II PROGRAM IN INDIA  
CALCUTTA AND COCHIN ZONES**

**PART III - AUDITOR'S OPINION  
ON COMMODITY ACCOUNTABILITY REPORTS**

We were engaged to examine the Commodity and Recipients Status Reports of CRS PL-480 Title II Program in the Calcutta and Cochin Zones for fiscal years 1987 and 1988, as summarized in Appendices A and B, in accordance with the Audit Objectives and Scope (Part I). These commodity status reports are the responsibility of CRS.

As stated in the Summary Results of Audit (Part II) and the detailed findings (Part VI), our examination raised various questions concerning commodity distributions and accountability, reporting of commodity losses, recording of attendance and inventory information, CRS's administrative operations, and warehousing. However, we were unable to adequately relate the Program implementation practices observed during 1989 to procedures which may have been followed in fiscal years 1987 and 1988. These matters, together with the lack of effective oversight and the limited extent of FFW activity observed during the audit, precluded us from determining the possible effect thereof on the Summarized Commodity and Recipient Status Reports of the CRS Calcutta and Cochin Zones for the fiscal years 1987 and 1988.

Since it was not possible to obtain adequate assurance as to the Program implementation practices which may have been followed during fiscal years 1987 and 1988, and also as in the circumstances we were not able to apply other auditing procedures to satisfy ourselves as to the reliability of the commodity accountability reports, the scope of our work was not sufficient to enable us to express, and we do not express an opinion on these reports.

This report is intended solely for the use of United States Agency for International Development, New Delhi. This restriction is not intended to limit distribution of this report which, upon acceptance by the office of the Regional Inspector General for Audit, Singapore, is a matter of public record.

New Delhi  
November 30, 1989

*Price Waterhouse*

*Price Waterhouse*



**NON-FEDERAL AUDIT OF THE CATHOLIC RELIEF SERVICES  
PL-480 TITLE II PROGRAM IN INDIA  
CALCUTTA AND COCHIN ZONES**

**PART IV - AUDITOR'S OPINION  
ON INTERNAL ACCOUNTING CONTROLS**

We have examined the Commodity and Recipients Status Reports of CRS PL-480 Title II Program in the Calcutta and Cochin Zones for fiscal years 1987 and 1988 as summarized in Appendices A and B. Our examination, conforming to the Audit Objectives and Scope (Part I), was made in accordance with generally accepted auditing standards and the "Standards for Audit of Governmental Organizations, Programs, Activities, and Functions" (1988 Revision). As part of our examination of the aforementioned reports, we made a study and evaluation of the system of internal accounting controls and observed Program implementation practices and procedures in the following areas:

- Commodity distribution and accountability.
- Program oversight.
- CRS operations.
- Commodity warehousing.

Our study and evaluation of the internal accounting controls was made primarily to enable us to express an opinion on the aforementioned Summarized Commodity and Recipient Status Reports and could not be expected to disclose all material weaknesses in the system. CRS is responsible, through its Headquarters and zone offices, as well as its counterparts and operating partners, for establishing and maintaining a system of internal accounting controls. The objectives of such a system are to:

- Ensure transactions are executed in accordance with proper authorizations and are recorded properly to permit the preparation of accurate Commodity and Recipient Status Reports.



- Provide management with reasonable, but not absolute, assurance that all commodities are safeguarded against loss from unauthorized use or disposition.
- Confirm adherence to approved regulations and requirements.

Due to inherent limitations in any system of internal accounting controls, errors or irregularities may occur and not be detected. However, the results of our study and evaluation, made for the limited purpose described in the first paragraph and as discussed in Part VI, disclosed serious lapses by CRS in ensuring that an adequate system of internal accounting controls was established and maintained for the purpose of preparing accurate Commodity and Recipient Status Reports of the PL-480 Title II Program in Calcutta and Cochin Zones. Further, we were unable to obtain adequate assurance that commodities were properly safeguarded against unauthorized use and were correctly accounted for, or that regulations and requirements were followed. The conditions disclosed during our study and evaluation were considered in determining the nature, timing, and extent of audit tests applied in examining the Commodity and Recipient Status Reports.

In our opinion, for the records and transactions examined by us, the system of internal accounting controls of CRS PL-480 Title II Program in Calcutta and Cochin Zones, in effect during fiscal years 1987 and 1988, resulted in more than a relatively low risk of errors or irregularities, in terms of commodity quantities and number of beneficiaries reported by the Commodity and Recipient Status Reports, occurring and not being detected in a timely manner.

This report is intended solely for the use of United States Agency for International Development, New Delhi. This restriction is not intended to limit distribution of this report which, upon acceptance by the office of the Regional Inspector General for Audit, Singapore, is a matter of public record.

New Delhi  
November 30, 1989

*K. V. Wadhvani*

*Price Waterhouse*



**NON-FEDERAL AUDIT OF THE CATHOLIC RELIEF SERVICE  
PL-480 TITLE II PROGRAM IN INDIA  
CALCUTTA AND COCHIN ZONES**

**PART V - AUDITOR'S OPINION  
ON COMPLIANCE WITH LAWS AND REGULATIONS**

We have examined the operations of the CRS PL-480 Title II Program in the Calcutta and Cochin Zones for fiscal years 1987 and 1988. Our examination, conforming to the Audit Objectives and Scope (Part I), was made in accordance with generally accepted auditing standards and the "Standards for Audit of Governmental Organizations, Programs, Activities, and Functions" (1988 Revision).

Our examination included tests of compliance with applicable laws and regulations and other requirements covering:

- Agreement provisions and applicable local requirements.
- Provisions of A.I.D. Handbook 9 in general, and A.I.D. Regulation 11 in particular.
- CRS Manuals.

CRS is responsible for complying with the applicable laws, regulations and other requirements. In connection with the examination referred to above, we selected and tested transactions and records to examine CRS's compliance with those laws and regulations, the non-compliance of which could have a material effect on the Summarized Commodity and Recipient Status Reports (Appendices A and B).

Results of our audit tests summarized in Part II and detailed in Part VI disclosed that for the transactions and records examined, CRS had not ensured adequate compliance with significant regulations and requirements noted in the second paragraph. In our opinion, CRS did not comply in all material respects with the requirements, as evident from the transactions examined by us. As a consequence, we do not express an opinion on the remaining transactions and records of fiscal years 1987 and 1988, not tested by us.



This report is intended solely for the use of United States Agency for International Development, New Delhi. This restriction is not intended to limit distribution of this report which, upon acceptance by the office of the Regional Inspector General for Audit, Singapore, is a matter of public record.

New Delhi  
November 30, 1989

*Rue Walahmes*

**NON-FEDERAL AUDIT OF THE CATHOLIC RELIEF SERVICES  
PL-480 TITLE II PROGRAM IN INDIA  
CALCUTTA AND COCHIN ZONES**

**PART VI - FINDINGS AND RECOMMENDATIONS**

**A. Commodity Distributions and Accountability**

The methods used to distribute commodities need to be improved and the commodity and attendance records which reported these distributions need to more accurately reflect actual operations. We found that measurement containers used to distribute commodities to beneficiaries during fiscal years 1987 and 1988 were short, commodity distributions were not always proper and in accordance to the requirements, losses were often not reported, and information used for compilation of official reports by certain CPs/OPs was apparently generated in such a manner as to ensure records reconciled as opposed to reflecting actual operations. As a result, beneficiaries were probably not receiving all the commodities reported as distributed, the extent of losses occurring could not be reasonably assessed, accuracy of certain attendance and inventory records was questionable, and the Program was being operated in an atmosphere whereby commodities could be used improperly without adequate assurance of detection.

**Discussion**

CRS, through the clearing and forwarding agent and the CPs/OPs, is responsible for ensuring that the commodities reach the approved beneficiaries and that reports on the distribution of these commodities accurately reflect operations. These responsibilities were not being adequately fulfilled by certain CPs/OPs. The problems noted were very interrelated and indicate serious internal control and compliance deficiencies, especially when viewed in their totality. For presentation purposes, they have been separated into the three areas discussed in the following sections:

**Commodity Distribution.** The methods and procedures used to distribute commodities need certain improvement at various stages. The present system did not confirm that beneficiaries received the correct amount of food at the proper intervals. However, records normally reflected that the proper amount of commodities were distributed at the correct times to the targeted beneficiaries.

One main problem in the Cochin Zone concerned the containers used for measuring the commodities to be distributed to the individual beneficiaries. CRS, subsequent to problems disclosed in the audit of Bombay and Madras Zones, supplied many OPs with correct measurement containers. These new containers were available at the majority of locations visited during 1989. While such action resulted in more accurate distributions in the current period, we found that the containers used during earlier periods were inaccurate at 23 of the 30 OPs where we were able to test for accuracy. For example, for oil distribution, most MCH OPs used a measure of 460 grams instead of 500 grams and CSB rations varied between 450 grams to 3.2 kilograms instead of 2.5 kilograms.

In the Calcutta Zone, incorrect measures with similar inaccuracies were being used at 5 of 44 OP locations where we were able to test containers. (At 7 locations, the measures used were not available for testing.) Thus, incorrect quantities of food were being distributed in both zones.

During our review, various additional problems with commodity distribution were noted at the CPs and OPs visited. Following are some examples:

- At three FFW OPs in the Calcutta Zone, beneficiaries received cash in lieu of the food. However, records showed that the commodities were distributed regularly. It appeared that the commodities were sold to get the funds to pay workers. This practice is not permissible and leads to significant breakdowns in control.
- At eight FFW OPs in the Calcutta Zone, commodities were handed over to the asset beneficiaries for distribution to workers but no supporting records were available to account for the commodities.
- Distributions at 5 of the 32 FFW OPs in the Calcutta Zone reviewed were based on the quantity of work done, but records indicated distribution on basis of man-days.
- Different quantities of commodities were distributed between men and women, but the records at 4 of 5 FFW OPs in Cochin Zone reflected equal issues.
- At 25 MCH centers in the two zones, ineligible beneficiaries were receiving rations, although their numbers were not considered significant.

The likely effect of these problems raises questions as to the appropriateness of the distributions and the reliability of the reports generated. While this does not necessarily mean the commodities were misused, it does show that correct quantities were not

distributed or accounted for by the OPs and records were generated to present reconciled reports. CRS needs to ensure that all OPs are provided standard measurement devices and require commodities to be properly distributed.

Reporting Commodity Losses. More management attention needed to be given to ensuring losses were properly reported. The A.I.D. Handbook and CRS's Operational Manuals require losses to be accurately reported. The total value of in-country losses reported during the years 1987 and 1988 was less than two percent. However, in a large number of cases, normal commodity shrinkage and losses caused by damaged packages were not being reported by the CPs and OPs. This non-reporting not only contributed to inaccurate records but also prevented CRS and Mission officials from determining with any degree of accuracy the extent of losses occurring and the corrective action which might be necessary.

We found that only 40 of 59 CPs reported losses at the CP level, including railway losses, and only 19 reported losses at the OP level. However, in our review at CPs and OPs, we observed unreported losses which may not have been reported in the past at 13 CPs and 10 OPs. While the number of loss reports in these two zones was much higher than those in the other two zones, improvements were still necessary. Losses occur due to the following:

- Damaged packaging resulted in spillage/leakage but losses were not reported. The following pictures from a CP and an OP illustrate obvious commodity losses which were normally not reported.



- Short receipt of commodities from railways was confirmed by CPs in both zones. However, since obtaining documentary evidence from the railways was tedious and at times not possible, such losses were not always reported.
- Reconstituted and short packed commodities received by CPs/OPs were accounted for in standard weights even though the net weight was less.
- Unfit commodities were disposed of without the requisite approvals and as a result were not reported.
- Infested commodities found at 7 CPs and 18 OPs resulting in losses that were not reported.

Additional examples of losses not being reported are also shown in Finding D. Instead of reporting the losses, they were being routinely shown as issues, without corrective action by CRS. Such action was not only contrary to the requirements but created an undesirable atmosphere among CPs/OPs whereby it was a common practice to maintain incorrect records. In such circumstances, commodities could be misused with almost no risk of detection.

It was not possible to estimate the extent of unreported losses or to determine whether they could be significant. However, without accurate information about losses, CRS and Mission officials were not aware of the extent of the problem or the nature of corrective action required.

The aversion to reporting losses may be due to widespread attitudes that loss reporting results in extensive paperwork, possible claims from CRS, and delays in future commodity receipts. CRS needs to overcome this aversion by ensuring CPs/OPs are familiar with the requirements and by streamlining loss reporting procedures.

In the case of losses which were reported by CPs, CRS was not able to ensure prompt review and approval action. In the Cochin Zone, this resulted in numerous losses being approved, prior to the audit, without a proper review. Also, in the Calcutta Zone, a CP loss of \$74,000 was approved without an adequate review. Suitably revised monetary and quantitative thresholds may be needed whereby CRS is required to only examine certain losses reported, based on an approved review procedure, prior to approving a write-off.

Attendance and Inventory Records. Attendance and inventory records examined at certain CP/OP locations may not reflect actual operations. This occurred because the CPs and OPs reported information which was apparently generated in such a manner as to ensure records reconciled, as opposed to reporting actual operations.

We reviewed the records at 20 CPs and 104 OPs (the records at 11 other OPs were not available) in the two zones and found them to be unreliable to various extents at 7 CPs and 54 OPs. Problems noted included improper recording because of the inaccurate measurement containers used to distribute food to the beneficiaries, improper distributions, and lack of loss reporting. These problems, as discussed under the preceding discussion on commodity distribution and loss reporting, have a direct impact on the reliability of the inventory and attendance reports.

In addition, there were other problems which impact on the reliability of inventory and attendance records in both zones. For example, attendance records were found inaccurate as noted hereunder:

Accuracy Of Attendance Records

<u>Attendance Reported to CRS</u>	<u>Approximate Actual Attendance</u>	<u>Percent Records Inaccurate</u>
250	128	49
200	180	10
250	203	18
500	326	35
150	123	18

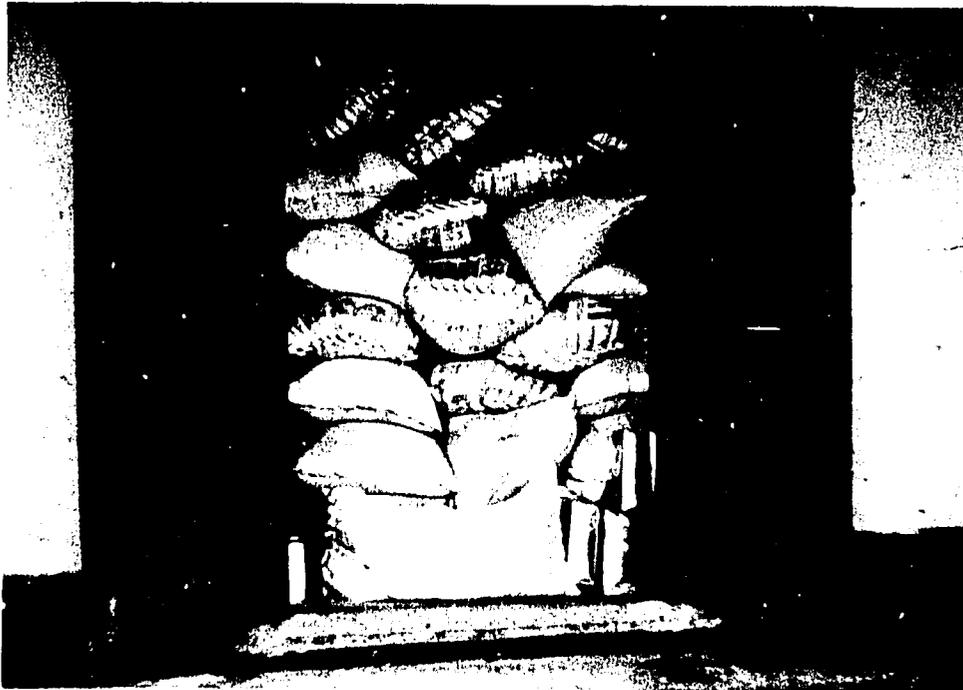
In all cases, the records showed that the commodities were distributed based on the "Reported Attendance" information. In addition, it was observed that the attendance records normally showed no or minimal absenteeism for considerable periods of time, and the numbers marked as attending did not correlate to the amount of food shown as issued at 44 of 110 OPs. Such inaccurate information appeared to have been reported over an extended period.

We noticed at 17 OPs in the Cochin Zone distributions were recorded at a time when there were inadequate or no stocks (per the records) on hand, or were recorded in a manner to cover up for double rations/back feeding. Similarly, instances were noticed where the CP's records regarding the OPs operations were in conflict with information supplied by the OPs. We also attended food distribution at 30 OPs and noted:

In the Cochin Zone 32 of 82 beneficiaries interviewed at eight OPs under four CPs, stated that neither they nor any other person on their behalf received food on the previous distribution. However, the records reported their attendance and food having been issued to them.

The number of persons attending distributions, especially in the Cochin Zone, was found to be on average 20 per cent less than previously reported attendance at 18 OPs reviewed, and the records generally did not reflect absenteeism. In such cases, CRS maintained that beneficiaries collected food on other days but the records incorrectly showed distribution on wrong dates. However, this explanation was not supported by beneficiary interviews or the normal distribution practices and procedures observed at the OPs.

We also attempted to verify the physical stock on hand with the records at 21 CPs and 86 OPs. However, due to improper stacking as illustrated by the picture hereunder we could not initially count the stock at 7 CPs and 23 OPs but as a result of corrective actions taken by CRS personnel, this problem was resolved by rearranging the stocks.



The physical count revealed differences at 3 of the 21 CPs and 32 of the 86 OPs. 20 OPs had large differences including two OPs in the Calcutta Zone who purposely tried to cover up 200 bags of bulgur and 61 cases of oil, physically available but recorded as issued. Similarly, in the Cochin Zone nine OP locations had unexplained excess stock which had been reported as issued. All stock differences noted during the audit have been advised to CRS for follow-up action and they include the following examples for various CP locations:

### Differences In Inventory Records

<u>Commodity</u>	<u>Book Balance</u>	<u>Physical Balance</u>	<u>Unexplained (Shortage)/Excess</u>
Bulgur bags	403	422	19
	2,336	2,081	(255)
	8,794	8,713	(81)
CSB bags	1,175	1,130	(45)
	1,331	1,221	(110)
Oil cartons	278	260	(18)
	681	656	(25)

The CRS Operation Manuals require CPs and OPs to report both commodity utilization and the number of beneficiaries receiving the food. The various reports are designed to support each other, e.g. number of beneficiaries fed should reconcile with the commodities issued. Based on this information, CRS zone offices generate two quarterly reports, the Commodity Status Report and the Recipient Status Report - see Appendices A and B. These are the principal reports submitted to USAID which account for the commodities and show operational results. The Mission uses this information to review and report on the overall operations.

As discussed above, the findings indicate questionable attendance and inventory records which resulted in inaccurate information being reported to USAID. However, it was not possible to determine, especially for FFW (refer Finding C), whether the practices observed during the audit were also being similarly followed to a significant extent during fiscal years 1987 and 1988, or whether the 1987 and 1988 records were also prepared so as to ensure the commodity receipts and inventory on hand reconciled with the distribution records as opposed to reflecting actual operations. Accordingly, we have disclaimed our audit opinion on the Commodity Status Report (Part III).

### Recommendations

We recommend that the Mission require CRS to:

1. Provide standard measurement devices corresponding to approved ration rates to all OPs and ensure their proper utilization.
2. Ensure distributions are proper and comply with requirements.

3. Advise CPs/OPs to strictly adhere to loss reporting procedures and requirements, streamline the loss reporting procedures with introduction of suitable monetary and quantitative thresholds, and ensure loss reports are adequately reviewed.
4. Ensure that CPs/OPs maintain records which record actual operations and accurately report information used in the Commodity Status Reports.

### Comments by CRS Officials

In their comments to this finding (see our page numbers 3 to 6 in Appendix E), CRS officials took exception to most of the points being raised. They stated that it was USAID's responsibility to match the regulatory requirements to the operating environments and that "USAID should simplify the documentation requirements and cumbersome procedures which ... are often impractical."

For the section of the finding dealing with commodity distribution, CRS stated:

" CRS does not accept the conclusion that incorrect rations were distributed by operating partners to beneficiaries because the auditors' testing was inaccurate, unreliable and inconclusive."

CRS also stated that we used incorrect ration rates and inaccurate measuring devices, faulted the acceptable "thaka" system, and listed some beneficiaries as ineligible who may have been eligible.

In response to the loss reporting section of the finding CRS stated that "... the extensive and burdensome paperwork required by USAID discourages complete reporting." The officials stated that the losses depicted in the pictures misrepresented the actual situation. According to CRS, the CP in question was in the process of repairing the damaged packages which had been received in poor condition from the port. Similarly, CRS disputed the findings that no losses were reported even though infested commodities were found at 7 CPs and 18 OPs. Concerning the \$74,000 loss which was approved without adequate review, CRS stated it was "confident that the counterpart acted honestly".

CRS officials also did not agree with the last part of this finding concerning attendance and inventory records. They stated that we did not witness 100 percent attendance because beneficiaries actually come at different times of the month to receive the food. Concerning the 17 OPs who recorded distributions even though there was no stock on hand at the time, CRS just stated that we did not provide them with any evidence to support our allegations.

CRS stated that the beneficiary interviews we conducted were unprofessional and confused and frightened the rural women. It was also implied that the pictures we used were isolated and did not reflect the actual conditions.

### Auditor's Comments

Based on the response received, it appears that CRS believes USAID should reduce Program requirements to fit the local operating environment. However, we believe poor compliance by CRS was the major problem, not poor regulations or the operating environment. Therefore, as most of the requirements were not unreasonable, CRS officials need to place much more emphasis on complying with the requirements and implementing the Program in accordance therewith.

Despite considerable effort on our part to discuss each audit finding in detail and provide all of the specifics in the numerous meetings which were held, CRS officials took the position that the main problem was how the audit was conducted. As a result, there appears to be little agreement on what problems were significant and needed corrective actions by CRS.

Our comments on the inaccurate measuring devices were based on what we observed at the time of the audit when the ration rate for oil was 500 grams. In earlier periods, the OPs were using measurement containers which were also inaccurate, and this was pointed out to CRS. Instead of really recognizing and dealing with the problem being reported, CRS chose to question the methods we employed to evaluate the incorrect measures. At the same time, CRS stated "that measurement devices must be routinely checked for accuracy" and "has already provided standardized devices to many centers". The fact that CRS rarely tested containers for accuracy, during the fiscal years under audit, or witnessed commodity distributions to ensure compliance with requirements is ignored (also see page 25, Finding B).

We have not questioned the appropriateness of (as CRS implies) the "thaka" system of implementing FFW projects but we merely stated that the records maintained did not reflect the Program practices observed, as illustrated by the various examples contained in the report. CRS has failed to address this important issue -- records not reflecting actual operations.

The pictures provided in the report were not isolated instances and the oil was not being reconstituted as CRS claims. The point we were making here and in the discussion on infestation was not who or what caused the problems but that losses were occurring which were not being properly reported. CRS also does not address this issue.

The records and our observations do not support CRS's contention that there were various feeding times throughout the month. Normally, there were only two distribution days in each month. On other days the commodities were stored in secured areas not readily available for an individual distribution. Also, based on our interviews with the beneficiaries, they were normally only able to obtain the food on the regular distribution days. Additionally, almost no absenteeism was reported by the OPs. These facts as well as those discussed in the finding demonstrates that attendance records are not reliable.

Concerning the 17 OPs who recorded distributions when their records indicated that there was no stock on hand, CRS officials were at the locations with the auditors and were also provided with the specific locations at later meetings.

We certainly do not believe the beneficiary interviews were conducted unprofessionally. Much care was taken not to frighten any of the individuals. The interviews were conducted in the presence of CRS personnel and no instances of beneficiaries being confused or frightened were pointed out at the time of the interview.

CRS's comments to this finding indicates general disagreement with the points being discussed. We believe important issues have been ignored and various attempts made to rationalize the problems noted. Thus, the Mission will need to ensure that adequate steps are taken by CRS to implement the needed improvements.

## **B. Program Oversight**

CRS's oversight activities need further management attention and improvements. Most CPs in the Cochin Zone were not documenting or not performing the reviews of OPs activities. Also CRS's zone reviews in Cochin of CP and OP activities were usually not thorough enough to be effective. Though the oversight activity in the Calcutta Zone was relatively better, certain important Program aspects were not reviewed. Finally, CRS's Headquarters (New Delhi) office reviews of zone operations did not review important Program aspects. As a result, problems which existed at all levels of the CRS Program were not always being adequately disclosed or corrected, and the monitoring that was performed provided incomplete and at times misleading information about the actual effectiveness of CRS's operation.

### **Discussion**

Oversight is required by A.I.D. Regulation 11 and CRS has assigned these responsibilities to each level of the Program in India:

- CPs are to review the operations of the OPs under their control.
- CRS's zone offices are to review the operations of both the CPs and OPs within the zone.
- CRS's New Delhi office is to review the operations of all zone offices.

These oversight reviews are required by CRS's manuals and are necessary to provide assurance that the Program is operating effectively and in accordance with various regulations. In addition to the above, CRS's home office (Baltimore) reviews CRS operations in India.

While CRS had assured the Mission that the reviews were being performed, many crucial aspects of the review function were found to be lacking, and serious deficiencies were found with most reviews at all levels. As discussed in the following sections, the cumulative effect of these omissions was sufficient in magnitude to mislead officials about the Program's effectiveness.

**CPs Review of OP Operations.** According to CRS's Operating Manuals, CP's were to perform annual supervision reviews of each OP. Specifically, Section IA (f) of the

Counterpart Manual states that the CP should provide field supervision of all OPs regularly or at least once a year to ensure the OPs are planning and conducting the Program in accordance with the prescribed procedures and standards.

Our visits to 20 CPs disclosed that 11 CPs did not perform or document the required reviews. To illustrate, one CP in the Calcutta Zone with 45 OPs had not documented reviews for any of the OPs operations during the past five years. Similarly, a CP in the Cochin Zone with 27 OPs had not documented reviews during the past five years. At another location, FFW attendance records were not maintained and the CP stated that he rarely visited the project sites. These examples were typical of the CPs without documented reviews.

At these OPs, as well as other OPs with documented oversight reviews, we found numerous problems. Most of these problems are discussed in Findings A, C, and D. Thus, even if the CP did document its review, the documentation normally did not reflect actual conditions at the OP. For example, as the CPs did not observe food distribution, the problem regarding attendance being lower than that reported was not examined or corrected. To illustrate, a CP review performed in August 1989 of an MCH OP in the Calcutta Zone did not disclose any problems. However, during our visit in September 1989, we noted that the number of beneficiaries included in attendance register was well below the numbers used for calculating ration issues in the stock register.

While a CP location in the Cochin Zone had documented reviews, there was no mention about stock verification at the OPs, and the CP staff was unaware of the necessity for verifying OP stocks. Similarly in the Calcutta Zone, a CP reviewer was not aware of CRS guidelines, and reviews conducted were very cursory.

At another CP location, documented field reviews disclosed no stock discrepancies at OP locations. However, on scrutiny of the OP's records it was found that the physical stocks checked by the CP reviewer could not have agreed with the records on such days.

These are examples of typical problems noted at the OPs in both zones but not being disclosed by the CPs. If the CPs adequately performed and documented the required reviews, many of these problems would have been noted and corrective action could have been initiated. Accordingly, stringent measures need to be taken by CRS to overcome the inadequacies of the CPs' reviews of OPs' operations.

CRS's Zone Reviews. The number of zone reviews performed, although not as per requirements, were in the circumstances reasonable. The Calcutta Zone reviewed 27 of the 28 CPs in fiscal year 1987 and 24 of the 28 CPs in fiscal year 1988. While the Cochin Zone reviews covered only 14 of the 32 CPs in the fiscal year 1987 due to reorganization of the

zone and staff problems, an adequate number of CPs were reviewed during the fiscal year 1988. The reviews were, however, not prioritized and there were large time gaps between successive reviews. Although the Calcutta Zone did not have any readily available listing of OPs reviewed during fiscal year 1987 and 1988, we noted that a reasonable number had been reviewed during the two years. The coverage of OPs in the Cochin Zone was adequate.

Reviews performed in both zones, however, lacked the proper quality, thereby providing an inaccurate assessment to management. Reviews in the Cochin Zone were incomplete, often inadequate and lacked in crucial aspects of review activity. The staff responsible for the review function did not appear to be aware of the intended purpose of the reviews. Reviews performed in Calcutta Zone were relatively comprehensive but still lacked the examination of important program aspects.

The above situation is illustrated by the following examples:

- Reviews placed reliance on records which were known to be inaccurate.
- Stock verifications were not always performed or documented.
- Reviewers rarely commented on the fact that many CPs and OPs did not report losses or that the records maintained did not reflect actual program activity.
- Reviewers generally did not include observations on food distributions, beneficiary interviews, or important aspects of FFW sites visited.
- The size of measurement containers used to distribute food to beneficiaries was not commented upon or checked.
- Warehousing deficiencies, stock rotation problems, poor condition of stock etc. were either not reviewed or not documented/reported.
- CP reviews of OPs or the related lack of documentation was not commented on.

The zone reviews normally disclosed few, if any of these problems. For example, CP/OP reviews by the zone office in October 1987 and March 1989 did not disclose any serious problems. However, during our visit, it was observed that:

- The CP godown was badly infested and dunnage was not provided.
- Attendance at the time of food distribution was significantly less than that previously reported.
- Excess stock of oil could not be explained.
- Quantity of food issued as reported by OPs did not agree with beneficiary levels recorded.
- The CP was not submitting OP level stock statements to zone office since 1987.
- The balances of stocks at OPs under the CP did not agree with the balances recorded at the CP level, and the CP staff were altering the stock balances at OP levels without informing the OPs or obtaining any confirmation.
- The CP reviews did not usually mention stock verification at the OPs.

Additional examples of the problems which should have been detected by zone reviewers are contained in the other findings in this report. Although there were many such problems, the majority of zone reviews did not highlight these problem areas and thus gave the impression that CP/OP records were substantially accurate. Such an impression was misleading and made it difficult for management to exercise an adequate level of internal control or take corrective actions in a timely manner.

There were various reasons for such oversight reviews. The reviewers were not always independent of the activity being reviewed and were not properly trained. They hesitated to ask direct questions to avoid upsetting CP/OP officials. Staff shortage also seriously hampered this function in the Cochin Zone. Additionally, no surprise reviews were performed, and the reviews were always scheduled far in advance and only at times agreeable to the CP/OP. Also, there was poor follow-up on prior findings.

If the zones had performed adequate reviews, the various problems noted during this audit would have been disclosed and possibly corrected by CRS. The Mission, therefore, needs to require CRS to improve the review quality, properly train its reviewers and ensure their independence, conduct some reviews on a surprise basis and with limited notice, follow up on prior findings, and monitor review reports.

**CRS New Delhi Reviews.** The reviews performed by CRS's Headquarters in New Delhi were substantially better than the reviews performed by zone offices. The New Delhi reviewers were more independent and better trained. Their reviews disclosed problems in the operations. However, this review function was staffed with the equivalent of two internal auditors during fiscal years 1987 and 1988.

In the Calcutta Zone, no review was performed for 1987 and the review carried out during 1988 was restricted to FFW implementation at four CPs and review of regular programs at two CPs. In the Cochin Zone, the CP/OP operations were reviewed during 1986 consequent to alleged commodity misuse (Refer finding C). Further, an internal audit carried out during 1987 covered only certain zone office operations. The 1988 review of the zone office was restricted to the reallocation of commodities for certain CPs and to following-up on the internal audit report. Consequently, the zone office and CP/OP operations were not being adequately reviewed.

Had the scope of these Headquarter reviews been more complete many of the problems we noted might have been disclosed and corrective action considered. For example, we noted that the zone office staff altered reports extensively as submitted by the CPs in order to agree with their own information without either seeking clarifications or advising the CPs. Also, CRS did not check inter-OP stock transfers. This resulted in the inclusion of erroneous information in the status reports which remained undetected till the time of our audit and which has been referred for examination to CRS. Accordingly, the Mission should require CRS to perform adequate reviews through its Headquarters.

CRS's home office in Baltimore also performs reviews. However, in the past eight years, only two such reviews were conducted. In the light of problems previously reported (refer finding C), these reviews should be more frequent.

### **Recommendations**

We recommend that the Mission require CRS to:

1. Enforce the requirement that CPs review the operations of their OPs each year to help identify problems, improve operations, and ensure compliance with regulations. Such reviews should be documented and should be commented on by CRS during the reviews of the CP's operations.
2. Perform some reviews on a surprise basis and some with very little notice to the CP/OP. Monitoring activities should be documented and the reports prepared by the zone offices should be submitted to CRS Headquarters for review and comment.

3. Improve the quality at all levels of review by checking records and reports, observing food distribution, interviewing beneficiaries, reviewing measurement containers used for distribution, observing condition and quantity of stock, determining whether losses are reported etc. and monitor and confirm the scope of Headquarters internal audit.
4. Increase oversight resources, properly train reviewers, ensure reviews are independent from CP/OP influence, and increase the frequency of CRS's home office reviews.
5. Include in the review program direct questions about how the Program is operating and what is actually happening to the commodities and place greater emphasis on follow-up actions to ensure prior problems are corrected in a timely manner.

### Comments by CRS Officials

While CRS officials stated (see our page numbers 7 and 8 in Appendix E) they disagreed with our conclusions, they indicated agreement with the recommendations (except for surprise reviews) and stated steps have been taken to adopt them. However, the officials also stated that they did not believe serious deficiencies were found in the reviews or that omissions at any level were sufficient in magnitude to mislead anyone about the Program's effectiveness. In fact, the officials even stated they believed that the zone reviews and the New Delhi reviews were adequately performed.

Although the officials stated that it was speculative and incorrect to imply that undocumented reviews were not performed, they agreed to require documentation in the future.

### Auditor's Comments

As stated above, CRS officials did not agree with the points in this finding even though they stated that most of the recommendations would be adopted. Concerning the documentation issue, at the time of the audit there was no evidence that undocumented reviews were performed. Discussions with CPs/OPs and the problems actually found all support our conclusion that the reviews were never performed.

While the number of oversight reviews performed by the zone offices was reasonable, the quality of the reviews required substantial improvements. As clearly shown in the finding, there were seriously problems which were not being reported. CRS did not provide any comment about these numerous problems which were not being reported during the

oversight reviews. Thus, we believe officials were being misled about the Program's effectiveness. Under the circumstances, the Mission needs to ensure that the recommendations are properly implemented as partial implementation would not provide the level of improvement necessary for effective monitoring.

### C. CRS Operations

CRS's internal/administrative operations were in need of improvement. Adequate management attention had not been given to matters such as correcting known problems, approving and reviewing FFW projects, complying with requirements for charging fees, controlling cash, recovering claims, providing publicity, and complying with Government of India's certification requirements. Improvements in the above areas would help ensure compliance with the various requirements as well as increase the Program's effectiveness.

#### Discussion

There are various internal policies and practices which CRS is required to follow. We found areas where improvements in management attention were necessary for ensuring proper operations. The cumulative adverse impact of these problems reduces effective operations.

Previous Audit Reports. A number of problem areas identified in prior reports have remained uncorrected. The more significant prior reports include the A.I.D.'s Office of the Inspector General report, dated March 1984, and the CRS's New York Internal Audit reports dated April 1987 and March 1989. The problems identified in these reports which remained uncorrected included the following:

- FFW projects were poorly managed and the documentation and controls were inadequate.
- Commodity losses were not reported and records were adjusted to show that the commodities were actually distributed to the beneficiaries.
- Claims for unaccounted/misused commodities were not filed, and actions were not taken against defaulters.
- The quality of zone oversight reviews were not consistent with the requirements. The review reports did not disclose the extent or seriousness of problems, thereby preventing adequate corrective action.
- Accountability over funds generated under the program was lacking.

- Certificates of Distribution were not filed or submitted on a timely basis.
- The Program was too large, varied, and scattered to be effectively managed by the limited resources. Thus, CRS staffing was not sufficient to ensure compliance with A.I.D. regulations.

Since these same problems were also disclosed during this audit, CRS was not adequately resolving audit recommendations.

Food-For-Work Projects. The Calcutta and Cochin Zones reportedly used 16,405 and 242 metric tons of food, respectively, during fiscal years 1987 and 1988. After the investigation of commodity misuse in the Cochin Zone, the FFW program was suspended until April 1988 when the FFW program in Karnataka (Madras Zone) was transferred to this zone. We reviewed 37 FFW OPs in the two zones.

As the majority of projects were either reported as completed by September 1989 or deferred during the monsoon, we were unable to observe an adequate number of on-going projects. However, serious problems were still noted at the sites visited.

- Project locations were changed by the project holders without obtaining prior approval or informing CRS or the CP.
- A.I.D. Handbook 9 states that projects on private land may be considered only if they result in corollary public benefits. However, projects on private land were not adequately assessed by CRS, prior to giving approval, for ensuring that they benefitted the community at large. For example, water from storage ponds dug under FFW program were for the landowners use only.
- Selection of the asset beneficiary, which is at the discretion of the OPs, was not based on the economic status of the owners. For instance, a hostel constructed on church land was partly supported under an FFW program, while most of the funds to meet the cost were already being provided by a society. In such cases, the validity of FFW resources being utilized as per FFW guidelines was questionable.
- Most of the FFW projects reviewed did not provide for any payments in cash to beneficiaries for supplementing their food rations. Usually, the specified rations should not exceed 50 percent of the wages (Ref. paragraph 10C (1a) of A.I.D. Handbook 9). The cash should normally come from the community or land owners benefiting from the project. While many projects benefitted private landowners, at none of the OPs reviewed did we observe supplemental cash payments.

At a location in Calcutta Zone, the low-cost houses constructed under an approved FFW program to benefit poor families were actually being used as godowns by the landowners as shown by the picture below:



At eight locations in the Calcutta Zone, the food for the entire project was handed over to the asset beneficiary who was also reportedly required to maintain the records. However, these records were not made available, and such a practice is contrary to CRS guidelines.

CRS is required to ensure that the Title II food commodities made available under Indo-U.S. agreement are not sold. At OPs under two CP locations, it was noted that the food was sold commercially by the asset beneficiary/project holders, and the workers were reportedly paid in cash. However, the cash generated was not accounted for and the records reported food distribution as per approved project man-days.

- Attendance records did not reflect the actual operations and appeared to be prepared in a manner to give the appearance of conforming to the requirements of FFW program. For example, at one FFW OP it was found that five names of workers were repeated in three different project locations on the same dates. Also, at six project locations, the workers recorded in attendance register could not be identified by OP or project holders staff.
- In the Cochin Zone, approved ration rates were not being followed at four of five locations and there was also discrimination between men and women at these locations. At seven locations, in both zones, it was noticed that certain workers were given only one commodity and others received rations at higher rates; the records, however, were maintained to show approved ration rates for all workers.
- Effective FFW program monitoring by the CPs was lacking in important aspects. One CP having FFW program in the Calcutta Zone did not visit any of the project sites while at another three FFW locations, workers interviewed stated that they were required to make a nominal contribution for participating in FFW projects. No guidance had been sought from A.I.D. permitting such collections and using such funds (refer paragraph 6B (4) of A.I.D. Handbook 9). At another CP location in Cochin Zone, our site visit revealed the following:

Projects executed were incomplete though the project holder reported them as complete (see picture below):



- . The CP staff had not visited FFW project sites for ensuring compliance with project approval or CRS guidelines.
- . Ration rates were not adhered to.
- . Projects executed mostly benefitted private landowners.

The above examples clearly indicate that CRS should provide increased involvement in FFW projects. The Cochin Zone has realized the existence of such problems and has decided to shift the functions of appraisal and approval of FFW projects, presently with the CPs, to the zone office with effect from FY 1990. However, FFW projects still need to receive additional effective oversight from CRS.

Fees Charged. OPs charge MCH beneficiaries a nominal sum for participation in the Program. If the beneficiaries can afford it, charging is allowed by USAID regulations. However, there were no formal provisions for waiving the charge for beneficiaries who could not afford to pay.

Our interviews with beneficiaries disclosed that they were able to make arrangements to get the funds. However, some beneficiaries may not be showing up for the food if they were unable to pay. Therefore, without more formalized provisions for waiving the fee, the very people the program is designed to help may at times be excluded. The Mission should require CRS to ensure that formal provisions are in place so that beneficiaries who cannot afford to pay are not charged.

Cash Controls. Improved controls were needed over cash collected by the CPs and OPs. Funds are generated from sale of empty containers and from beneficiary contributions. The CPs are required to furnish CRS with annual audited statements. This enables CRS to monitor the funds generated to ensure they are utilized in accordance with program guidelines.

Cash reports were being submitted and adequately reviewed in the Cochin Zone. However, in the Calcutta Zone most CPs did not submit audited cash reports to the zone office thereby negating the effect of any possible monitoring by CRS. For the OPs visited, we noted that 21 of 51 OPs did not either maintain cash books, segregate beneficiary and container sale funds, or submit the required returns to CPs. Instances of unsupported receipts/costs at CPs and OPs were also noted. For example:

- Transportation costs paid by two OPs for transportation of food from CP's godown (\$4,440).

Repayment of loan taken by one OP from outsiders for running the program (\$5,350).

Collections from asset beneficiaries by three OPs.

The zone office was unable to provide any evidence of review for such items, the cumulative total of which could be significant.

CRS guidelines also require that funds generated under this Program be segregated from other funds. However, CPs and OPs did not always segregate the funds and the receipts could often not be reconciled with the number of beneficiaries. Thus, CRS needs to be more actively involved in reviewing the use of cash generated from this Program. Audit reports should be obtained and reviewed and oversight visits should include a proper review of the cash records.

Recovery of Claims. Transportation costs and loss recovery claims were not normally being promptly submitted and collected in both zones. Under the Indo-U.S. agreement, the Indian Government is responsible for commodity transportation costs from the port to the CP. Part of this cost is the road transportation from the railhead to the CPs godown. The CPs pay this cost and CRS is required to file a claim for recovery. In addition, A.I.D. Regulations require CRS to lodge claims against third parties for losses due to negligence.

In the Cochin Zone, transportation claims valued at about \$48,800 have been outstanding from the previous clearing agent whose services were discontinued nearly three years ago. The amounts due from the present clearing agent could not be quantified as they were yet to be submitted for want of support documentation. Similarly in the Calcutta Zone, transportation claims pending recovery were \$28,500, excluding numerous unquantified amounts for which claims were yet to be submitted. While part of the problem in recovering transportation and railway loss claims concerns improved cooperation from the Government of India, CRS still needs to take more aggressive follow-up action including obtaining assistance from USAID if necessary.

Similarly, a review of loss claims actually filed indicates that follow-up action on the part of CRS needs to be strengthened considerably, especially for railway claims which date back to the 1970's. In both zones, information as to the amount of claims outstanding was under preparation and we were advised that CRS expects the Mission to recommend a write-off of pending railway claims. In addition, considering the extent and nature of losses observed at CP/OP levels, it appears that claims need to be filed against CPs/OPs for commodity losses due to unaccounted commodities and non-adherence to CRS guidelines. For example:

- A CP in the Cochin Zone who anticipated losses, reported one tin of oil as lost for every case of oil received if the case even appeared to be damaged. Also, other CP and OP locations in the Cochin Zone had numerous unexplained stock differences.
- The OPs under two CPs in Calcutta Zone sold the food and paid FFW workers in cash.
- CPs and OPs in both zones had unexplained stock shortages or excesses and had not ensured that FFW projects provided benefit to the community rather than private landowners only.

In the Cochin Zone, as a result of investigations performed by CRS headquarters and a review performed by CRS/New York, claims amounting to \$321,197 were filed against five CPs, who have to date only paid \$5,056. CRS has requested Mission approval to reduce the balance due and in the meantime no further amounts have been received. Additionally, four CPs recommended for closure by the reviewers were not actioned for unexplained reasons. As a result, we concluded that CRS needs to file claims or take other action against CPs/OPs in accordance with recommendations.

Publicity. Regulation 11 requires CRS to provide publicity about the commodities being donated by the people of USA. The sign on the left in following picture shows the type of sign which should normally be displayed at OP distribution centers.



It was observed, however, that most of the OPs visited did not provide adequate publicity. Also, CPs and OPs were disposing of empty containers mostly to scrap dealers without removing or obliterating the U.S. markings. A.I.D. Regulation 11 requires removal/obliteration prior to commercial use of containers. The Mission needs to require CPs and OPs to provide the required publicity and to dispose of empty containers in accordance with A.I.D. Regulations.

Government of India's Certification Requirements. The Indian Government requires a certificate regarding free and proper distribution of Title II commodities, signed by the appropriate District Officer. Of the 20 CPs visited, 7 either submitted the certificates beyond the six-month period stipulated or failed to submit as required.

This non-compliance exposes CRS/USAID to the risk of duty being levied on the commodities imported into India by the customs authorities. Accordingly, CRS needs to instruct CPs to ensure that certificates of distribution are properly prepared and submitted.

Program Location. During the course of audit in the Cochin Zone it was observed that MCH center locations were usually in the proximity of each other and were operating in areas also being assisted by Indian Government agencies. CRS had recognized this situation some years back and currently had plans to shift its zone office out of Cochin to Hyderabad, so as to be able to operate in more needy areas, viz Andhra Pradesh and Karnataka. We were advised by CRS that the two zones in South India, Madras and Cochin, were being considered for re-organization as their activities could be more effectively used in other regions. The Mission should require CRS to operate in areas which are more needy than the current Cochin Zone locations.

### Recommendations

We recommend that the Mission require CRS to:

1. Ensure that when problems are identified in evaluation and audit reports corrective actions are taken.
2. Provide much greater attention to FFW projects, approvals, and oversight to correct the problems noted.
3. Provide more specific instructions to CPs for waiving fees when beneficiaries cannot afford to pay, and enforce CP cash control requirements by requiring audits, segregating funds, reviewing expenditures, supporting costs, etc.

4. Collect all transportation costs and loss claims as soon as possible, file claims against CPs/OPs when there are signs of substantial negligence or actions and omissions which are contrary to Program guidelines and which result in "lost" commodities, provide the required publicity, and instruct CPs to comply with Government of India certification requirements.
  
5. Review the levels at which it should continue to operate in the Cochin Zone.

Comments by CRS Officials and Auditor's Comments

CRS officials stated (see our page numbers 9 through 12 in Appendix E) that maintaining and improving Program quality were concerns they shared with USAID. However, while accepting the first four recommendations in this finding as being constructive, they took issue with most of the eight areas discussed. We do not believe CRS's response fully addresses the problems reported in this finding.

The following comments, in the order presented in the finding, were provided by CRS officials. For ease of comparison, our comments are supplied immediately following CRS's statements.

<u>CRS's Comments</u>	1. CRS stated that all previous audit recommendations were closed with USAID's concurrence and that the recurrent nature of many of the problems were inherent to the operating environment. Also, CRS officials took the position that "the audit report mentions some of these constraints, such as the difficulty in documenting rail losses, but ignores others of equal importance, such as the delivery and storage of commodities through a weak and unsophisticated infrastructure."
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<u>Auditor's Comments</u>	While prior recommendations were closed, the problems identified in earlier audit and evaluation reports were not corrected. This was also pointed out in the 1984 Inspector General audit report. We believe that most of the problems pointed out were inherent to a lack of management not the operating environment in India. For example, CRS's contention that the delivery and storage of commodities are beyond its control is not acceptable. CRS needs to be much more actively involved in correcting known problems and ensuring that the problems do not recur. The problems associated with delivery and storage of commodities have been further discussed in Finding D.
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CRS's  
Comments

2. CRS officials stated that prior to this audit, they recognized the need to improve FFW activities. However, CRS did not consider the FFW problems cited as serious and took issue with several of the examples given. To illustrate, the officials stated low-cost housing was "allegedly" used for storage as poor people have no option but to shelter the grain and animals with their families and that the "hostel constructed on church land" sheltered some of India's most destitute social groups. They also stated that the requirement that some cash payment accompany FFW rations is only a guideline. Concerning the food sales, record inaccuracies, and poor oversight, CRS stated that our sample was too small to be representative. Also, officials stated that the illustrated project which was supposed to be completed was never reported as being complete.

Auditor's  
Comments

Based on the officials' comments to the FFW problems cited in this finding, it does not appear that they consider the problems very serious. The so called low-cost housing was used as a warehouse as the picture indicates. Families were not living there. As for the hostel, FFW was used to benefit construction carried out by the diocesan society without prior review by CRS. While our sample was small, it was large enough to demonstrate widespread problems. Also, the uncompleted project had been listed as completed by the project holder.

CRS's  
Comments

3. Concerning fees charged, CRS officials stated that neither CRS or ourselves observed that beneficiaries were denied Title II commodities due to their inability to make a nominal contribution.

Auditor's  
Comments

While we did not observe any beneficiaries being denied food, beneficiaries did tell us that they would not show up for a distribution if they were unable to pay the fees.

CRS's  
Comments

4. CRS officials did not address our observations regarding the weak monitoring provided over Program funds. Instead, the officials stated that annual audited statements were only necessary in 1988 and the missing reports for that period were being pursued at the time of the audit.

Auditor's  
Comments

Although audited statements were not required prior to 1988, quarterly reports were required but were often not submitted in the Calcutta Zone. Also, as reported, even when audited statements or quarterly reports were submitted, they were not adequately reviewed by the Calcutta Zone. Therefore, just having the statements/reports was not

enough as they needed to be reviewed and appropriate follow-up actions taken.

CRS's  
Comments

5. Regarding recovery of claims, CRS officials stated that procedures relating to road transport charges should not fall under the purview of this audit (not being a USAID requirement), railway claims were vigorously pursued, and pending loss claims against transporters needed Mission approval for write-off. CRS also stated that it was two asset beneficiaries, not two OPs as stated in the report who sold the food.

Auditor's  
Comments

Collection of transportation charges on behalf of CPs was within the purview of this audit since it was a requirement of CRS's agreement and because nonreimbursement of costs incurred by CPs adversely affects the Program's effectiveness. CRS addressed the problems and delays with collecting claims against transporters/railways; however, no comments were provided about the claims or other suitable action required against the CPs or OPs. Also, CRS is not correct in believing that "two asset beneficiaries, not operating partners" sold the food to pay FFW laborers. The report accurately states that the OPs under two CPs in Calcutta Zone sold the food.

CRS's  
Comments

6. On the publicity issue, CRS stated that posters were provided and were displayed.

Auditor's  
Comments

While publicity posters may have been provided (no date was mentioned as to when the posters were provided), they were not displayed at most of the OPs visited by us. CRS provided no comments on the issue concerning obliterating the markings on empty containers prior to sale.

CRS's  
Comments

7. CRS stated that obtaining documentation from government officials certifying the distribution of commodities is a problem which has long been recognized and that no duties have ever been levied on the imported commodities.

Auditor's  
Comments

As stated in the report, 7 of 20 CPs visited either submitted the certificates beyond the six-month period stipulated or failed to submit them as required. In view of the fact that certain OPs were selling the commodities while others were not distributing in accordance with requirements, we believe CRS needs to consider its obligations in this regard more seriously.

CRS's  
Comments

8. CRS has contended that commenting on Program location is beyond our competency and "comes as a surprise as it was never discussed with CRS". Also, many factors need to be considered when selecting areas for food assistance interventions. CRS further stated that "the suggestion that CRS should relocate its Cochin office is gratuitous".

Auditor's  
Comments

The observation dealing with Program locations was the subject of discussions with the CRS Cochin Zone director during the audit and at the exit conference and as such we do not agree to CRS's contention that this matter was never discussed. We did not at any stage suggest relocation of the Cochin Office which, as the report clearly states, is a CRS plan. We agree that many factors need to be considered in determining Program locations, including malnutrition levels. We did recommend that the Mission review the levels at which CRS should continue to operate in the Cochin Zone.

#### **D. Commodity Warehousing**

Compared to the findings at Bombay and Madras Zones, there was a noticeable improvement in warehousing practices, consequent to corrective measures that may have been taken by CRS after the audit in those zones. However, further improvements were still necessary to ensure that all damaged packages were repaired, commodities were adequately tested for fitness, proper dunnage was used, commodities were properly stacked and segregated, stock was rotated properly, and storage facilities were adequate.

#### **Discussion**

Warehousing activities were reviewed at 21 CPs and 111 OPs in the two zones as well as the clearing and forwarding (C&F) agent's warehouse in Calcutta Zone. During these visits, warehousing problems were noted at 13 CPs, 26 OPs, and the agent's warehouse at Calcutta, all of which affected the protection provided to the commodities. We observed that certain important warehousing aspects, despite CRS having alerted the CPs, remained to be corrected and more than one type of problem was normally noticed at the locations visited. When viewed in their totality, the following warehousing problems were considered significant.

**Damaged Packages.** CPs/OPs are required to repair/reconstitute damaged containers as soon as possible to protect the commodities and prevent further losses. When this is not accomplished, contents are exposed to the environment and infestation is accelerated resulting in food items spoiling. However, we found unrepaired damaged food containers at 14 of the 21 CPs and 11 of the 111 OPs visited. At certain locations, these packages were infested with various bugs.

The following is a picture from a CP showing the conditions observed:



At one location in the Calcutta Zone, the situation was so bad that there was a layer of oil on the ground. The oil came from damaged containers which had been in the warehouse for several months. Following is a picture of this situation:



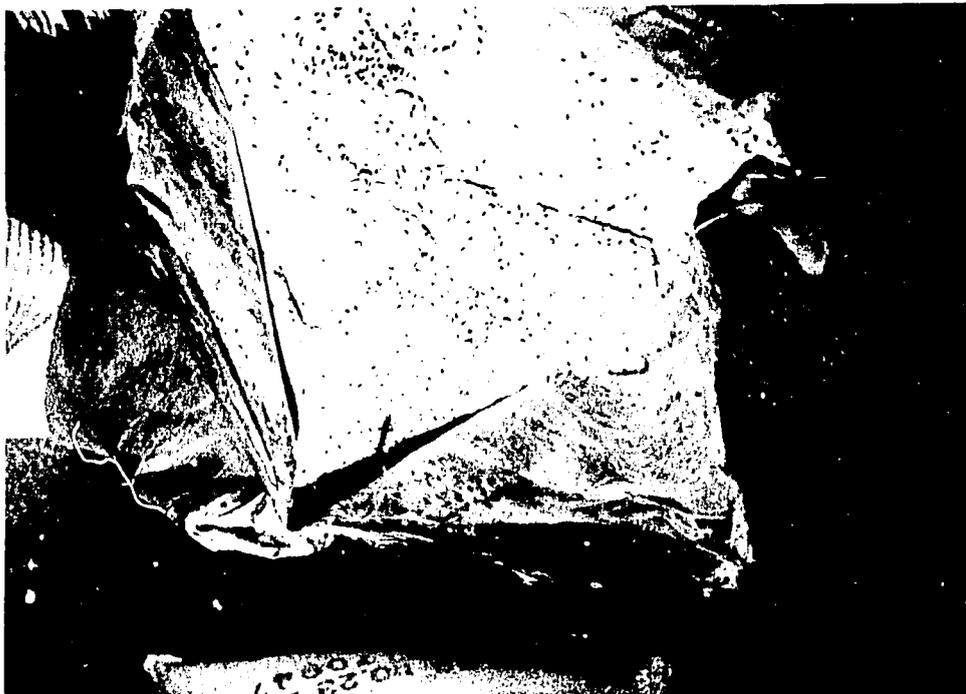
It was also noted that CPs/OPs did not make a special effort to distribute food from damaged packages on a priority basis. Instead, the unrepaired damaged packages remained in the warehouse for extended periods, increasing the possibility of food spoilage or contamination.

CRS should require CPs/OPs to reconstitute damaged packages as early as possible and ensure that reconstituted commodities if fit are distributed before others.

Fitness/Infestation. CPs/OPs are required to ensure that commodities distributed were fit for human consumption. The hot and humid climatic conditions prevalent in the two zones accelerate the deterioration process of exposed commodities. However, the CPs and OPs reviewed by us did not take adequate action to protect the food and at 7 of 21 CPs and at

18 of 100 OPs we noticed fitness/infestation problems. Godowns at CP/OP locations visited by us were generally not fumigated, and the CPs/OPs, unaware of such necessity, distributed food of questionable fitness without testing.

Samples taken by us from commodities of questionable fitness were tested and found unfit for human consumption in 12 out of 14 cases. Following is a picture of infested commodities stored at a warehouse awaiting distribution:



CPs/OPs should be required by CRS to ensure that only commodities fit for human consumption are distributed and in case of doubts as to fitness, appropriate tests or other reviews should be made.

Dunnage/Stacking/Segregation. Important aspects of storing food commodities include providing protection from ground moisture, ensuring proper air circulation, and separating damaged/infested commodities. We noted various problems with these requirements at 7 out of 21 CPs and 13 out of 111 OPs.

While CRS requires CPs/OPs to use dunnage at the base of stored commodities, adequate dunnage was not always used. CPs/OPs normally used mats and polytene sheets/bags in place of wooden dunnages, thereby letting the food come in contact with the ground. The following picture illustrate the lack of dunnage.



Proper stacking to allow for air circulation and adequate segregation to prevent damage to commodities are required by the CP/OP manuals. Adherence to these requirements was often not followed as illustrated by the following picture.



According to the CPs/OPs, it was not always possible to follow the prescribed storage standards because of excessive shipments and limited storage facilities. However, even in cases where storage space was adequate, commodities were not always stacked and segregated as per CRS guidelines. CRS should ensure that CPs/OPs have adequate storage facilities available and adhere to prescribed storage guidelines.

Stock Rotation. CRS's manual clearly establishes the stock rotation procedure which should be followed by the CPs and OPs. However, in our discussions with the CPs and OPs, it was found that there was often a lack of knowledge about these procedures. Consequently, commodities were not properly rotated which resulted in older stock being retained for periods longer than necessary and recent receipts being issued first. Due to the damp climatic conditions prevalent in the two zones, the problem of stock rotation needs to be given adequate attention.

Problems concerning stock rotation were noted at 13 of 21 CPs and 26 of 100 OPs reviewed. The stock in these cases was stored in such a manner as to make stock rotation on a regular basis impossible. This situation is clearly demonstrated in the following pictures showing how it was impossible to get to the older stock in the rear of the warehouse.





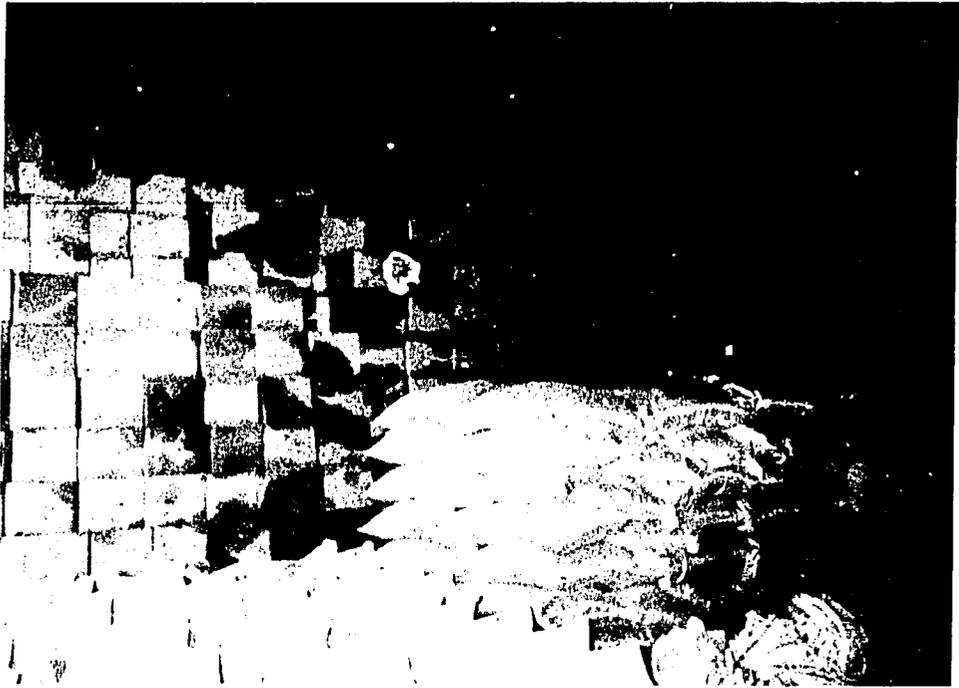
CPs and OPs indicated their inability to rotate the stock due to shortage of storage space, excessive stock levels, and lack of required manpower for ensuring that older stock is issued first. CRS, therefore, needs to ensure that if CPs/OPs are to continue in the Program, they are able to properly rotate stock.

Physical Storage. The physical storage facilities available at some CP/OP locations were inadequate. Such problems were noted at 3 of 21 CPs and 10 of 111 OPs visited. The warehousing structure at these locations did not offer the protection required for commodities, such as waterproofing, ventilation, freedom from rodents and other pests, and/or did not provide adequate space.

CRS needs to ensure that the physical storage facilities being provided by the CPs/OPs conform to the requirements.

C&F Agent's Warehouse. In the Calcutta Zone, we visited three of the four storage sheds used by the agent. The following matters were noted:

- Commodities were not stacked properly and dunnage, fumigation, and pest control had not been provided. At one warehouse, damaged CSB bags were kept adjacent to unfit bulgur while at another warehouse it was not even possible to inspect commodities, due to the large volume and manner of stacking. The following pictures illustrate the condition:



- The inventory as per the C&F agent and CRS could not be reconciled largely due to the lack of information about despatches to CPs by the C&F agent.

Although responsibility for reconstitution lies with shipping agents and the C&F agent is responsible for storage, we believe that CRS, in conjunction with USAID, needs to perform a greater liaison role to ensure that the interests of the Program are safeguarded.

It was further noticed that an earlier sub-agent of the Calcutta C&F agent had seized substantial amounts of commodities which were not being released pending settlement of a dispute with the main C&F agent. CRS had filed claims on the subagent in respect of these commodities amounting to \$43,000 approximately. It is quite likely that these commodities would become unfit for human consumption by the time they are actually released.

### Recommendation

We recommend that the Mission require CRS to ensure proper reconstitution of damaged packages, fitness testing or other reviews when appropriate, use of dunnage, correct commodity stacking and segregation, stock rotation, and adequate physical storage. Also, CRS in conjunction with USAID needs to improve liaison with the C&F agent for ensuring adequate protection to commodities and safeguarding the Program's interests.

### Comments by CRS Officials

CRS officials did not concur with some of the conclusions and stated (see our page numbers 13 to 15 in Appendix E) that while improvements in warehousing and storage practices were needed at "a few counterparts and some operating partners", storage being provided was generally adequate.

For the examples given in the finding of damaged packages, CRS officials blamed port handling procedures and poor quality of packaging. They also indicated that the examples were exaggerated exceptional cases.

Concerning the fitness/infestation issue, CRS officials stated that the method of taking the samples was not scientific, that the sampled items were actually awaiting disposal, and that the samples were taken from only eight locations, not 14 as the report indicates. They also stated that the samples were taken from caked or damp commodities in corners of a bag.

CRS's other comments on dunnage, stacking, segregation, stock rotation, and physical storage did not address the conditions found. Their comments clearly indicate that the officials do not believe there are widespread problems which need to be corrected.

## Auditor's Comments

Based on the comments received, CRS officials do not believe there are serious deficiencies with commodity warehousing activities. However, the finding demonstrates widespread problems which need to be corrected. As was stated, serious problems were found at 13 of the 21 CPs reviewed and 26 of the 111 OPs. Thus, problems were certainly not isolated to just a "few" locations.

The commodities which were sampled were awaiting distribution and the samples taken were representative of the contents which were in the bag being sampled (not caked or damp samples from corners of the bag). CRS and CP personnel were present when the samples were taken and took their own samples which also proved to be unfit. While we did not observe unfit food actually being distributed, we did observe unfit food awaiting distribution.

CRS officials need to be more concerned with what was actually found so that appropriate corrective action can be implemented. Otherwise, the same problems will continue to occur and be reported over and over as has been happening in the past. The problems we have reported are not inherent to the Program -- they are inherent to a lack of proper management. Thus, the Mission needs to be actively involved in assuring that CRS implements corrective action.

**NON-FEDERAL AUDIT OF THE CATHOLIC RELIEF SERVICES  
PL-480 TITLE II PROGRAM IN INDIA  
CALCUTTA AND COCHIN ZONES**

**PART VII - APPENDICES**

**SUMMARIZED COMMODITY STATUS REPORT  
FOR FISCAL YEARS 1987 AND 1988  
CALCUTTA ZONE**

<u>Particulars</u>	<u>Commodities In Metric Tons</u>							
	<u>CSM/B</u>		<u>Oil</u>		<u>Bulgur</u>		<u>Total</u>	
	<u>1987</u>	<u>1988</u>	<u>1987</u>	<u>1988</u>	<u>1987</u>	<u>1988</u>	<u>Qty.</u>	<u>\$ '000</u>
Starting Inventory	427	1,240	508	582	5,359	4,701	12,817	\$3,114
Receipts	<u>2,958</u>	<u>1,978</u>	<u>1,170</u>	<u>1,129</u>	<u>13,015</u>	<u>16,044</u>	<u>36,294</u>	<u>8,404</u>
Total Available	<u>3,385</u>	<u>3,218</u>	<u>1,678</u>	<u>1,711</u>	<u>18,374</u>	<u>20,745</u>	<u>49,111</u>	<u>\$11,518</u>
<u>Less Distribution:</u>								
MCH	2,049	2,111	396	401	1,593	1,342	7,892	\$2,225
FFW	-	-	160	193	6,657	9,395	16,405	3,253
Others	<u>15</u>	<u>131</u>	<u>505</u>	<u>567</u>	<u>4,788</u>	<u>5,963</u>	<u>11,969</u>	<u>2,831</u>
Total Distribution	<u>2,064</u>	<u>2,242</u>	<u>1061</u>	<u>1161</u>	<u>13,038</u>	<u>16,700</u>	<u>36,266</u>	<u>\$8,309</u>
Balance	<u>1,321</u>	<u>976</u>	<u>617</u>	<u>550</u>	<u>5,336</u>	<u>4,045</u>	<u>12,845</u>	<u>\$3,209</u>
<u>Less Adjustments:</u>								
Losses - Marine	62	87	2	2	198	129	480	\$ 103
- In Country	19	43	33	6	137	101	339	89
Transfers/Others	-	<u>56</u>	-	-	<u>300</u>	<u>91</u>	<u>447</u>	<u>88</u>
Total Adjustments	<u>81</u>	<u>186</u>	<u>35</u>	<u>8</u>	<u>635</u>	<u>321</u>	<u>1266</u>	<u>\$280</u>
Closing Inventory	<u>1,240</u>	<u>790</u>	<u>582</u>	<u>542</u>	<u>4,701</u>	<u>3,724</u>	<u>11,579</u>	<u>\$2,929</u>

The Summarized Commodity Status Report presented above is for information only in order to show what was reported to the Mission. As explained in Part III, we have disclaimed our audit opinion on this report. Also, the notes appearing on page 3 are an integral part of the Summarized Commodity Status Report appearing above.

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**SUMMARIZED COMMODITY STATUS REPORT  
FOR FISCAL YEARS 1987 AND 1988  
COCHIN ZONE**

<u>Particulars</u>	<u>Commodities In Metric Tons</u>							
	<u>CSM/B</u>		<u>Oil</u>		<u>Bulgur</u>		<u>Total</u>	
	<u>1987</u>	<u>1988</u>	<u>1987</u>	<u>1988</u>	<u>1987</u>	<u>1988</u>	<u>Qty.</u>	<u>\$ '000</u>
Starting Inventory	-	525	115	244	113	190	1,187	\$ 458
Receipts	<u>5,480</u>	<u>6,401</u>	<u>1,119</u>	<u>1,093</u>	<u>4,979</u>	<u>6,255</u>	<u>25,327</u>	<u>6,839</u>
Total Available	<u>5,480</u>	<u>6,926</u>	<u>1,234</u>	<u>1,337</u>	<u>5,092</u>	<u>6,445</u>	<u>26,514</u>	<u>\$7,297</u>
<u>Less Distribution:</u>								
MCH	4,762	5,837	844	1,028	3,437	3,397	19,305	\$5,432
FFW	-	-	-	41	-	201	242	67
Others	<u>171</u>	<u>125</u>	<u>107</u>	<u>137</u>	<u>1,052</u>	<u>1,204</u>	<u>2,796</u>	<u>678</u>
Total Distribution	<u>4,933</u>	<u>5,962</u>	<u>951</u>	<u>1,206</u>	<u>4,489</u>	<u>4,802</u>	<u>22,343</u>	<u>6,177</u>
Balance	<u>547</u>	<u>964</u>	<u>283</u>	<u>131</u>	<u>603</u>	<u>1,643</u>	<u>4,171</u>	<u>1,120</u>
<u>Less Adjustments:</u>								
Losses - In-Country	22	70	39	7	413	42	593	143
Closing Inventory	<u>525</u>	<u>894</u>	<u>244</u>	<u>124</u>	<u>190</u>	<u>1,601</u>	<u>3,578</u>	<u>977</u>

The Summarized Commodity Status Report presented above is for information only in order to show what was reported to the Mission. As explained in Part III, we have disclaimed our audit opinion on this report. Also, the notes appearing on page 3 are an integral part of the Summarized Commodity Status Report appearing above.

**NOTES TO SUMMARIZED  
COMMODITY STATUS REPORTS  
CALCUTTA AND COCHIN ZONES**

1. The commodity status statements were summarized from the zones Quarterly Commodity Status Reports prepared by CRS and submitted to USAID/India. CRS prepares these reports based on information submitted by CPs/OPs as well as from zone office information. All commodities are shown in metric tons (one metric ton equals 2,200 lbs).
2. The rates used for valuing commodities are the average prices during fiscal years 1987 and 1988 used by USAID/India for valuing Annual Estimate of Requirements.
3. Programs other than MCH and FFW included in the statements have not been subject to audit. "Transfers" include movement of stock between and within zones or amounts loaned to World Food Program (bulgur 340 metric tons).
4. The inventory balances reported are as per records and are not adjusted for losses pending approval; thus, losses reported in a period do not necessarily pertain to that period.
5. The commodity accountability statements submitted do not indicate the extent to which CP/OP reports are missing or pertain to previous periods.

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**SUMMARIZED RECIPIENT STATUS REPORTS  
FOR FISCAL YEARS 1987 AND 1988**

**CALCUTTA ZONE**

Program Area	Recipients*		Commodities In Metric Tons							
	Reached		CSM/B		Oil		Bulgur		Total	
	1987	1988	1987	1988	1987	1988	1987	1988	Qty.	\$ '000
MCH	82,198	86,000	2,078	2,030	410	389	1,472	1,438	7,817	\$2,208
FFW	23,648	29,169	-	-	155	161	6,385	6,489	13,190	2,633
Others	-	-	31	106	485	546	4,508	6,418	12,094	2,831
<b>Total</b>			<u>2,109</u>	<u>2,136</u>	<u>1,050</u>	<u>1,096</u>	<u>12,365</u>	<u>14,345</u>	<u>33,101</u>	<u>\$7,672</u>

**COCHIN ZONE**

Program Area	Recipients*		Commodities In Metric Tons							
	Reached		CSM/B		Oil		Bulgur		Total	
	1987	1988	1987	1988	1987	1988	1987	1988	Qty.	\$ '000
MCH	180,670	192,985	4,098	5,358	806	929	3,090	2,680	16,961	\$4,833
FFW	-	11,100	-	-	-	8	-	371	379	75
Others	-	-	143	123	99	123	982	994	2,464	601
<b>Total</b>			<u>4,241</u>	<u>5,481</u>	<u>905</u>	<u>1,060</u>	<u>4,072</u>	<u>4,045</u>	<u>19,804</u>	<u>\$5,509</u>

\* Average per month

The Summarized Recipient Status Report are presented for information only in order to show what was reported to the Mission. As explained in Part III, we have disclaimed our audit opinion on these reports.

The notes appearing on page 2 are an integral part of the Summarized Commodity Status Reports appearing above.

**NOTES TO SUMMARIZED  
RECIPIENT STATUS REPORTS  
CALCUTTA AND COCHIN ZONES**

1. The recipient status statements were summarized from the zones Quarterly Recipient Status Reports prepared by CRS and submitted to USAID/India. CRS prepares these reports based on information submitted by CPs/OPs. All commodities are shown in metric tons (one metric ton equals 2,200 lbs).
2. The rates used for valuing commodities are the average prices during fiscal years 1987 and 1988 used by USAID/India for valuing Annual Estimate of Requirements.
3. Programs other than MCH and FFW included in the statements have not been subject to audit.
4. The number of recipients indicated in the summarized Recipient Status Report reflect the average number of beneficiaries reached every month, extracted from CRS quarterly reports.
5. The commodity accountability statements submitted do not indicate the extent to which OP reports are missing or pertain to previous periods.

### SUMMARY OF CRS INVESTIGATIONS

We had selected for review CP 122 in the Calcutta Zone and were requested by CRS not to visit a certain FFW OP under this CP as the OP was under investigation. According to the CP's records, this OP had during fiscal years 1987 and 1988 satisfactorily performed various projects. However, for unexplained reasons and against the CP's advice, CRS directly allocated \$117,000 in commodities to this OP during fiscal year 1989.

The commodities under investigation and eventual claim action taken pertain to fiscal year 1989 and the situation amply demonstrates the importance of adequate CP oversight. The CRS investigation revealed:

"... a very substantial quantity of food in your godowns, while a very insignificant amount of work was found to be done in the field".

"... OP refused to provide the commodity records and the location of one of the godowns".

"... Analyzing the project accomplishment against the utilization/progress reports of FFW projects, the CRS review team found many discrepancies between the figures reported as distributed and the actual activity".

As a result of the investigation, the OP operations were discontinued, available commodities worth \$92,500 seized with the help of police and local authorities, and a provisional claim for \$24,500 filed against the OP. The CP, against whose advice these commodities were directly allocated to the OP, was requested to take control of some of the available commodities while CRS arranged redistribution of the balance quantities to newly appointed and existing project holders.

In the Cochin Zone, prior to commencement of audit, we were requested not to visit one of the CPs (code 28) as CRS was in the process of starting a detailed review and the CP operations had been suspended. The reasons for suspending CP operations, based on the initial review, were:

"... stock discrepancies ranging from 1 to 14 bags at 5 OP locations."

"... wrong measuring devices at two OP locations for CSB (1.8 kgs instead of 2.5 kgs)."

"... two beneficiaries interviewed revealed that they did not receive food at previous distribution, but their attendance recorded as present and having received food."

"... distribution records were questionable and fabricated at 3 OP locations."

The detailed CRS investigation report had not been received by the time we completed our field work.

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**DESCRIPTION OF OPERATIONS AT FOUR COUNTERPARTS**

In order to provide the reader with a clearer understanding of CP/OP operations, audit results from four CPs and their related OPs are included in this part of the report. Examples of two CPs, (CP 001 from the Cochin Zone and CP130 from the Calcutta Zone) with the fewest problems were included to show the differences between better operated CPs and the two other CPs (030 from the Cochin Zone and 51 from the Calcutta Zone) which had more problems.

001 Cochin Zone. This CP was responsible for 33 OPs and the Program size was as follows:

<u>Fiscal Year</u>	<u>MCH Beneficiaries</u>	<u>Value of Food Allocation</u>
1987	9,020	\$134,300
1988	9,020	134,300
1989	9,020	<u>141,000</u>
Total		<u>\$409,600</u>

In addition to the CP, we visited five MCH OPs. There were no discrepancies between CP/OP stock records and stock physically verified. Also, the warehousing facilities and condition of stock were found adequate at the CP and OP warehouses, and the type of problems noted were:

- OPs were reporting distribution on dates on which they did not have sufficient inventory.
- Issues reported in stock records were inconsistent with the beneficiary level and the approved ration rates.
- The number of beneficiaries to whom commodities were distributed per attendance records did not agree with the numbers reported in stock records.
- Some beneficiaries reported having received unfit commodities in the past.
- There were no formal provisions to waive the participation fee for those beneficiaries who could not afford to pay, and there was non-compliance with certain other USAID requirements such as publicity and charging fees.

- Centers did not provide publicity about the food being donated by the U.S. and empty containers were sold without obliterating A.I.D. markings.
- Losses were not being reported as per CRS guidelines.

130 Calcutta Zone. This CP was located approximately 250 miles from the port and only FFW programs were being implemented in fiscal year 1989. We visited three FFW OPs, in addition to the CP.

<u>Fiscal Year</u>	<u>MCH Beneficiaries</u>	<u>FFW Man-days</u>	<u>Value of Food Allocation</u>
1987	2,625	225,000	\$ 372,100
1988	5,000	350,000	592,600
1989	-	900,000	<u>1,332,400</u>
Total			<u>\$2,297,100</u>

Our findings, discussed hereunder, revealed that problems existed with CP oversight and processing of documents, while distribution, warehousing, and inventory records were found to be reasonably satisfactory. The observations made by us were:

- There were no discrepancies between stock record balances and stock physically verified at CP and two OPs.
- Transport claims and commodity receipts were not being promptly submitted to zone office.
- Large amounts pertaining to sales of empty containers were not dealt through a bank account.
- Certificates of Distribution had not been submitted since 1988.
- Reviews reportedly performed by CP of OP operations during fiscal years 1987 & 1988 were not documented while some reports for reviews done in fiscal year 1989 were available. However, these reports were not detailed enough.
- Warehousing facilities and condition of stock was found adequate at CP and OP warehouses.
- Infested commodities were disposed of without CRS approval (4,445 bags of wheat) or without furnishing adequate evidence of infestation.

- Cash Book was not maintained in prescribed format by OPs.
- Cash receipts and payments were not adequately supported at OPs.
- FFW rations comprised the entire wages earned.
- Empties were sold without obliterating A.I.D. emblem and the zone office had not billed the CP for containers, as is the normal practice.

CP30-Cochin Zone. This CP was responsible for 27 OPs. The Program size was as follows:

<u>Fiscal Year</u>	<u>MCH Beneficiaries</u>	<u>Value of Food Allocation</u>
1987	6,550	\$ 97,500
1988	6,550	97,500
1989	6,550	<u>102,400</u>
Total		<u>\$297,400</u>

Our review of the CP and seven OPs revealed the following problems:

- Warehousing did not provide adequate protection for the commodities and commodities were badly infested.
- Old measuring devices used for distribution had been discarded by most of the OPs. The available devices tested by us provided insufficient quantities.
- The CP was located 120 miles away from the Program location and expressed his inability to effectively coordinate the MCH program.
- The records submitted by the OPs were incomplete resulting in inadequate information being received by CP and sent to CRS zone office. Consequently, it was noticed that the stock balances as per OPs did not agree with balances recorded at the CP level.
- The CP did not have adequately trained staff to monitor OP activities, and reviews were not documented.
- The OPs under the CP did not have CRS OP manuals. The CP admitted that he himself was unaware of the same.

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- The CP was not aware of loss reporting procedures as inadequate supporting documents were being obtained and losses were adjusted prior to CRS approval.
- Certificates of Distribution were not submitted to local government officials as required.
- The attendance records at the OPs reviewed by us did not seem to reflect actual attendance. While the actual attendance was observed as below the approved beneficiary levels, the records indicated all present on previous distribution days.

CP 051 - Calcutta Zone. The CP was located approximately 600 miles from the port and was responsible for 22 OPs. The Program size was as follows:

<u>Fiscal Year</u>	<u>MCH Beneficiaries</u>	<u>FFW Man-days</u>	<u>Value of Food Allocation</u>
1987	6,530	125,000	\$199,500
1988	6,530	100,000	179,100
1989	6,950	125,000	<u>211,100</u>
Total			<u>\$589,700</u>

Our review at the CP and five OPs (three MCH and two FFW) revealed unreliable loss reporting, delays in documentation, and unsatisfactory record keeping at OP level.

The observations made by us were:

- Delays in raising CP loss information reports.
- Delays in raising road transport claims.
- Losses at OP level not being reported.
- Certificates of Distribution not furnished to appropriate authority.
- Stock records not maintained according to CRS guidelines.
- Prescribed ration rate not followed due to shortage of stock with project holder/operating partner.
- All operating partners/project holders not regularly in submitting quarterly reports to CP.
- Stock levels maintained by OPs in excess of three-month requirement.

- No separate Cash Book for CRS operations maintained by CP; four OPs not maintaining Cash Book in prescribed form and one OP not maintaining Cash Book at all.
- No reports generated for CP review of OP operations during fiscal year 1987. Reports for subsequent fiscal years did not include follow-up actions taken by operating partners and project holders pursuant to recommendations made.
- Presently there is no MCH Coordinator.
- Attendance Register not maintained in prescribed format and not maintained for fiscal year 1987 by one OP.
- Attendance Register not reliable in one OP and found to be maintained by asset beneficiaries in one OP.
- In two OPs, number of beneficiaries as per Attendance register did not match the approved number of beneficiaries reported.
- Empties sold without obliterating A.I.D. emblem.
- Beneficiaries not aware of source of food due to inadequate publicity.
- Physical verification revealed stock differences at two OPs.
- Improper stocking of food commodities found in one OP.
- Ration being distributed by one OP on the basis of workdays and not mandays. Information reported, however, was on mandays basis.
- At two OPs, project locations were changed without CRS or CP approval.
- Child labour found to be engaged at one project location.
- Backfeeding done by one OP, without approval from CRS.
- Local aides employed by one operating partner given commodities instead of cash salaries.
- Ineligible beneficiaries being given rations under MCH program.
- No immunization was being done up to August 1989 by one OP.



**CATHOLIC RELIEF SERVICES**

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May 24, 1990

Mr. Robert N. Bakley  
Director  
USAID Mission  
B - 28, Institutional Area  
Near Kutab Hotel  
New Delhi

5/25/90  
ACTION

CO  
(W/Att.)

INFO:

D  
DD  
FFD  
PDPS  
CHRON  
RF

Dear Bob,

Attached please find the CRS India Program's response to the final Draft of the non-federal Audit of Title II Activities in Calcutta and Cochin Zones.

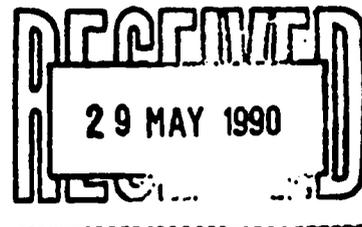
With kind regards,

Sincerely yours,

James DeHarpporte  
Country Representative

Encl: as s.a.

cc: Mr. Alfred M. Clavelli



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## APPENDIX E - CRS COMMENTS TO DRAFT REPORT

### SUMMARY RESULTS OF AUDIT

Catholic Relief Services welcomes the recommendations contained in the RIG non-federal audit report as useful tools for improving its Title II program in India. However, CRS regrets the manner and methodology in which the audit was conducted. Many of the audit report's conclusions are unsubstantiated and based on speculation rather than fact. CRS regrets the inability of the auditors to express an opinion on the CSR and RSR documents.

The report contains many examples of deficiencies that were found. CRS accepts that some of these weaknesses exist and welcomes realistic suggestions for resolution. However, some of the issues identified by the auditors as deficiencies result from misunderstandings on the part of the auditors. These inaccuracies are explained in the sections that follow.

The objective of the CRS program in India is to provide relief and development assistance to the poorest of the poor. CRS works through a network of non-governmental, mostly church-based, social service societies. These organizations are staffed with committed people who are reaching the unreachable.

Our priority populations are remote and illiterate tribal and outcaste groups who suffer extreme social and economic deprivation. CRS does not tolerate misuse of resources or indifference to record keeping. For these programs to continue to serve the poor, reasonable standards must be set and reasonable judgements made.

## A. COMMODITY DISTRIBUTIONS AND ACCOUNTABILITY

The auditors state they were "unable to adequately relate the program implementation practices observed during 1989 to program implementation practices in 1987-88" and, later, "the scope of our work was not sufficient to enable us to express an opinion on these (commodity utilization) reports." Nevertheless, the audit report contains six pages of negative comments regarding these issues. CRS has the following comments on this section of the audit report:

### Commodity Distribution

1. CRS does not accept the conclusion that incorrect rations were distributed by operating partners to beneficiaries because the auditors' testing was inaccurate, unreliable and inconclusive.
  - a. The correct oil ration during 1987-88 was 450 grams, not the 500 grams for which the auditors tested.
  - b. The auditors tested the accuracy of measuring devices using scales at local village shops, which are known to be inaccurate and are certainly not calibrated by any local authority to certify their correctness. Therefore, conclusions regarding the remaining two commodities, CSB and bulgar, are questionable.
  - c. Distribution on the basis of work done rather than by man-days is acceptable under the regulations. The five operating partners in the Calcutta zone cited in this section of the audit report use the local "thaka" or block work system because it increases project productivity and quality. CRS/India's Title II procedures for FFW reporting are standardized and require reporting in man-days. In this system a fixed amount of work, such as the movement of 100 cubic feet of earth, is established as equivalent to one day's work. These standards are well-established and commonly used by the government and other organizations. Experts applaud rather than find fault with this system.
  - d. We are surprised at the statement that "ineligible beneficiaries were receiving rations at 25 MCH centers." We understand that most of these cases refer to children between the ages of three and five years. While CRS guidelines give priority to children aged three years and younger, malnourished children or those who only recently improved can remain in the program so that their nutritional status does not again deteriorate.

### Reporting Commodity Losses

2. The auditors acknowledge that it is not possible to estimate the extent of unreported losses. As the report mentions, the extensive and burdensome paperwork required by USAID discourages complete reporting.

3. CRS objects to the misrepresentation caused by the inclusion of a photograph used to illustrate "obvious commodity losses which were normally not reported." This photo does not represent carelessness on the part of a counterpart in the Calcutta zone, but rather illustrates good commodity management because it shows the counterpart in the process of reconstituting oil in order to minimize losses. The photograph reveals the condition in which commodities often arrive from the port of entry in India, and the amount of work this creates for the counterpart to salvage food.

4. The statement that infested commodities at seven counterparts and eighteen operating partners were not reported as losses is unfounded, and demonstrates the auditors' unfamiliarity with proper commodity salvaging procedures. USAID guidelines state that commodities can be declared unfit only after medical testing. There is also a difference between infested and unfit commodities. Infested commodities can be fumigated and, if declared fit, distributed according to USAID guidelines. At several counterparts samples of these commodities had in fact been sent for analysis to determine if they were totally unfit or if they simply required fumigation.

5. CRS disputes the statement that a loss of \$74,000 was approved by the Calcutta zonal office without adequate review. CRS staff explained to the auditors that a large shipment of Section 416 wheat, a program which did not fall under the purview of this audit, arrived from the United States so infested that it had to be fumigated on barges in the port. CRS obtained special permission from the GOI to clear it through customs. CRS, its counterparts, and USAID tried to save as much of the wheat as possible. USAID/Delhi agreed to pay for cleaning, further fumigation, and rebagging once the commodities were received by counterparts carefully selected for their ability to handle this salvage operation. After cleaning, fumigating and rebagging, one counterpart reported a loss of 220 MT of wheat, valued at \$74,000, from his total shipment of 1,500 MT. CRS is confident that the counterpart acted honestly and, in fact, performed a great service to USAID and his community in salvaging 1,280 MT of highly-infested commodities valued at \$431,000.

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## Attendance and Inventory Records

6. The auditors did not witness one hundred percent attendance during their one-time visits to a few MCH centers. Their examination of records from previous months showed near perfect attendance and the auditors therefore concluded that distribution records were not accurate. However, CRS and operating partners repeatedly explained that most centers have more than one distribution day per month, that attendance is recorded with a check mark for the month, not the day, and that the register does not accommodate multiple dates. So distribution records cannot be misconstrued in the future, CRS has employed an accounting firm to study possible modifications in the forms to allow several distribution dates per month to be recorded, as well as other variations that occur at the 2,783 operating partners centers in the two zones. However, the auditors have also recommended that procedures be simplified. CRS agrees with this recommendation.
7. The audit report claims that seventeen operating partners in the Cochin zone recorded distributions when inadequate or no stocks were available, speculating that these were attempts to hide double rations or back-feeding. The auditors did not provide CRS with any evidence to support their allegations against these seventeen counterparts.
8. CRS questions the reliability of conclusions based on interviews with beneficiaries due to the auditors' unprofessional interview techniques which confused and frightened rural women. The auditors did not introduce themselves to the mothers or explain the purpose for their questions, which were often asked while mothers stood, holding a child in one arm and the ration in the other. They asked leading questions which were often not understood, and beneficiary answers were not verified independently or with follow-up questions. For example, if a mother replied that she did not receive food the previous month, she was not asked if another member of her family received it instead, which is often the case. In other instances, when beneficiaries answered that they had received no rations the previous week, the auditors ignored the fact that the operating partners held no stock and therefore conducted no distributions at that time. Unaware of the purpose of these questions, most mothers did not volunteer information that others came in their stead or that no one received rations that particular week. In other cases beneficiaries answered negatively thinking they might receive a second ration.
9. The picture used to illustrate improper stacking reflects the situation at a single counterpart location.

10. Facts are distorted regarding the two operating partners in the Calcutta zone who "tried to cover up 200 bags of bulgar and 61 cases of oil." No such purposeful action took place. In one case the operating partner temporarily stored commodities in a hospital warehouse prior to delivery because civil disturbances blocked the roads.

The second case results from a misunderstanding rather than "cover up." The auditors asked the operating partner to restack the 50-kilogram bags of bulgar so they could be properly counted. The auditors refused his request that this be deferred until later that day when laborers could be engaged. He then felt compelled to restack many of the bags himself while the auditors watched. Later, tired and upset, he interpreted the auditors questions about possible inventory differences as an affront to his integrity and called off the interview. When his counterpart invited the auditors to return the next day, they declined.

11. The examples of discrepancies between book balances and physical balances result from the fact that the auditors counted only stocks located inside warehouses, failing to take into account pending requests to write off commodity losses and damages, which cannot be removed from the record books. For example, one counterpart was 200, not 255 as the report states, bags "short" only because these bags, which arrived wet, had been segregated in a nearby railway shed and were awaiting loss assessment. These bags were later reconstituted, the losses were reported to USAID and write off was approved. The 110-bag "shortage" represented damaged goods which had been approved for donation to a local hospital for poultry feed.

#### Recommendations

CRS recognizes that measurement devices must be routinely checked for accuracy and, as mentioned, has already provided standardized devices to many centers. Prior to this RIG audit, CRS already had taken action to improve loss reporting. Training sessions for CRS staff, counterparts and operating partners have and will continue to emphasize the need for accurate reporting.

Sound Title II management in the developing world requires a regulatory and procedural framework relevant to the operating environments, and it is the responsibility of USAID to ensure the relevance of the Title II procedures it establishes. Recently-formulated procedural changes, when instituted, must be carefully monitored to ensure their relevance. USAID should simplify the documentation requirements and cumbersome procedures which as the auditors note, are often impractical.

## B. PROGRAM OVERSIGHT

CRS recognizes that program oversight can be improved, and has initiated training programs for counterparts and CRS field staff to further develop their ability to analyze information and to write meaningful reports. However, for the following reasons CRS does not agree that serious deficiencies were found in CRS field reviews, or that omissions at any level of the review process were "sufficient in magnitude to mislead officials about the program's effectiveness."

### Counterpart Reviews

1. While the CRS commodity management manual requires counterparts to monitor operating partners, it does not require formal documentation of these reviews. However, many counterparts document their reviews, while others keep informal records such as diaries. To imply that reviews did not occur because they were not formally documented is speculative and incorrect. CRS agrees that a more formal system will strengthen this aspect of the program, and has instructed all counterparts to document their reviews of operating partner programs. The need to document reviews will be included in revised manuals and agreements, and scheduled counterpart training workshops.

2. The conclusion that attendance was lower than reported and would not have been "examined or corrected" is entirely speculative. Regarding the counterpart in the Calcutta zone visited by the auditors in September 1989, CRS refers to Part A which explains MCH center operations and the incorrect conclusions regarding attendance.

### CRS Zonal Reviews

3. During the Calcutta/Cochin audit exit conference in November 1989, the auditors praised CRS/Calcutta for not only completing a sufficient number of reviews, but also for monitoring the resolution of deficiencies. CRS was therefore surprised that the audit report concluded that CRS reviews "lacked examination of important program aspects". In response CRS point outs that:

- a. Field reviewers do not rely on records that are "known to be inaccurate." They examine counterpart records and compare these with the physical situation before them. These records have been generally found to be accurate.

- b. Where improvement is needed, field reviewers make observations about food distributions, beneficiary interviews, warehouse deficiencies and practices, and important aspects of FFW projects. Where these and other issues are not commented upon, it is because counterpart compliance was found to be adequate during the field reviewer's visit.

#### CRS New Delhi Reviews

4. Contrary to the audit report's assertion that the Delhi reviewers did not perform any reviews of the Calcutta zone in 1987, the reviewers spent two months, mid-January to mid-March, in Calcutta reviewing eight counterparts. The statement that the Delhi reviewers' assessment of the Cochin zone in 1987 "covered only certain zonal office operations" is also incorrect. The reviewers visited eight counterparts. The RIG auditors were given copies of all CRS/New Delhi reviews.

#### Recommendations

CRS firmly believes that serious problems were not found in the Calcutta and Cochin zones precisely because the present system does detect deficiencies and corrective action is taken. Although CRS disagrees with the conclusions in this section, the agency does find the five audit recommendations constructive and, with the exception of surprise reviews which will be conducted when indicated, has already taken steps to adopt them.

While beneficiary interviews can provide useful information about program operations at the distribution level, it is critical that the interviewers are properly trained to elicit accurate information and independently verify beneficiary responses.

### C. CRS OPERATIONS

Maintaining and improving the quality of Title II program operations is a concern shared by CRS and USAID. CRS has already identified areas requiring additional management attention, and corrective actions have been initiated.

However, many recurrent problems identified by CRS internal reviews and this audit are inherent to the Indian operating environment and regulatory constraints. In fact, USAID, private voluntary agencies and the U.S. Congress are examining Title II regulations in light of the many constraints encountered in implementing Title II programs in the developing world. The audit report mentions some of these constraints, such as the difficulty in documenting rail losses, but ignores others of equal importance, such as the delivery and storage of commodities through a weak and unsophisticated infrastructure.

CRS takes exception with several statements in this section:

#### Previous Audit Reports

1. All previous audit recommendations were closed by CRS with USAID's concurrence. Some, such as a more focussed program, are long-term goals for which targets and strategies have been identified in CRS planning documents. Achievements reflecting established benchmarks are regularly reported to USAID in the annual Title II progress report.

FW

2. CRS offers the following comments on the "serious problems" cited in the examples given by the auditors to illustrate the FW program:

a. In one location low-cost housing was allegedly used as "warehouses." Throughout the developing world poor people often have no option but to shelter grain and animals - their only assets - with their families inside the home to protect them from inclement weather and theft. Such was the case in the example illustrated with a photograph of freshly-harvested crops stored in a house.

b. The "hostel constructed on church land" shelters harijan "untouchable" and tribal children - some of India's most destitute social groups. The land is owned by an independent, registered diocesan social service society which provided most of the funds for material inputs, while CRS supplied Title II commodities as a work incentive. This is an example of the resource integration encouraged by CRS and USAID. This issue betrays the auditors'

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lack of understanding of this basic developmental concept.

- c. The "requirement" that cash payments accompany FFW rations is, in fact, merely a guideline, and that too in cases where work is full-time and performed over an extended period. Most CRS-supported FFW activities are not large public works projects in which food rations are viewed as wages. Rather, CRS encourages smaller local projects which benefit the workers and in which food rations are viewed as an incentive for participation.
- d. While food was sold at three FFW locations and attendance records were not accurate at eight, the sample, as the audit report admits, is by no means sufficient to indicate that these instances are representative of the entire program. Similarly, poor oversight by one counterpart in each zone is not representative of the 58 CRS counterparts in the two zones.
- e. The project in the Cochin zone illustrated with a photograph was never claimed to be complete, as the auditors incorrectly assert.
- f. USAID guidelines state that asset beneficiaries, if able, should be encouraged to contribute nominal amounts for the transportation of Title II commodities to project sites. This guideline applies to the audit report's example of three FFW projects in the Calcutta zone in which recipients were at the same time workers and recipients of low-cost houses. CRS only assists landholders who are poor and marginalized as a result their low status in Indian society.

#### Fees Charged

3. Neither CRS nor the auditors have ever observed that beneficiaries were denied Title II commodities due to their inability to make a nominal contribution.

#### Cash Controls

4. In fiscal year 1988, when the requirement of annual audited statements was introduced by USAID, CRS negotiated formal agreements with its counterparts. To test compliance during 1987, when the rule was not yet in effect, is improper. While it is true that not all counterparts in the Calcutta zone submitted audited statements in 1988, CRS had already been taking action to obtain these reports at the time of the audit.

## Recovery of Claims

5. Procedures relating to road transport charges are not USAID requirements, but services voluntarily provided by CRS to its counterparts. Since these transactions are between counterparts and the GOI, with CRS merely facilitating them, this issue should not fall under the purview of this RIG audit. A procedural change, and the omission of this facility in the new contract between the GUI and its clearing and forwarding agents during the period audited, not only delayed but prevented CRS from submitting bills of collection until this matter was rectified.
6. Collection of road transport claims under the Indo-US Agreement is a well-known constraint. In fact, in 1984 the Area Auditor-General auditors recognized this and recommended that AID/Washington review the matter of unsettled claims resulting from the refusal of GUI agencies to accept liability for negligent losses "to make a determination if the write-off of such losses is acceptable-advise the mission of what is or will be required of CRS to comply with the intent of the regulation."
7. Contrary to assertions in this audit report, CRS vigorously pursues pending claims by promptly sending quarterly statements to the railways, by seeking intervention from the Ministry of Social Welfare, and by engaging legal assistance. These actions were taken in pursuance of the road transport claims pending in the Cochin and Calcutta zones, valued at \$48,800 and \$28,500 respectively. CRS retains the option to choose different strategies in pursuit of claims settlement based on prevailing circumstances.
8. It must be recognized that India is one of a few countries which continues to honor its agreement to cover inland transportation costs for Title II commodities, at a cost of approximately two million dollars each year. What is remarkable is not the slowness of the Indian bureaucracy but the consistent support provided by the GUI since the program began in 1951.
9. In February 1988 CRS discovered an operating partner in the Cochin zone who anticipated a loss of one tin for each case of oil. Although he distributed all the oil, this is an incorrect procedure which was corrected long before the RIG audit.

10. The two asset beneficiaries, not operating partners as stated in the audit report, in the Calcutta zone are harijans who sold their own food rations, not operating partner food stocks, to pay FFW laborers.

#### Publicity

11. CRS has provided its partners with publicity posters which are displayed at offices, distribution centers, and warehouses.

#### GOI Certificate Requirements

12. Obtaining documentation from government officials certifying the distribution of Title II commodities is a problem which has long been recognized. CRS welcomes any useful, practical recommendations to resolve this difficulty. CRS or USAID have never paid duties levied on commodities imported into India due to the lack of signed distribution certificates.

#### Program Location

13. The auditors' comment on program location is beyond their competency, and comes as a surprise as it was never discussed with CRS. The World Food Program provides Title II support to Kerala, which is a food deficit state with high levels of malnutrition. Many factors must be considered when selecting areas for food assistance interventions. The suggestion that CRS should relocate its Cochin office is gratuitous. Long before the audit CRS had made this decision for a number of reasons, and this was made known to the auditor.

#### Recommendations

14. CRS finds the recommendations constructive, with the exception of No. 5 which, as stated above, is unnecessary. Prior to this audit it CRS recognized the need to improve the planning and monitoring of CRS-supported FFW activities, and corresponding actions continue to be implemented with the assistance of USAID grants.

#### D. COMMODITY WAREHOUSING

CRS does not maintain its own warehousing in India, but depends on the GOI, counterparts and operating partners to provide these facilities.

Given their operating environments, counterparts and operating partners generally provide adequate storage and reconstitute damages to salvage Title II commodities. Exceptional cases should not be exaggerated with a few photographs depicting one corner of a warehouse. For example, the picture of oil on the floor of a warehouse in the Calcutta zone is uncharacteristic of this counterpart and all counterparts. The situation was not as serious as the photograph leads one to believe: only 18 of the 6,000 tins of oil stored in the warehouse were leaking, and they were being reconstituted by the counterpart when the auditors visited.

#### Damaged Packages

1. CRS agrees that the handling of damaged commodities is a serious problem. The USG can ameliorate this problem by reversing decisions which have lowered the quality of packaging. Indian port workers routinely use hooks to move the 50-kilogram bags in which bulgar now arrives. Smaller bags would reduce damages and losses because port regulations disallow the use of hooks for smaller containers. Similarly, changes in the packaging of CSB and oil cause continuing problems. A recent joint PVO/USDA packaging team visit to India confirmed a common problem of weak seals at the end of CSB bags and weak spout seals on oil tins.

2. Most counterparts and operating partners attempt to repair and move damaged containers as soon as possible. However, when commodity fitness is doubtful, USAID regulations require medical examination and approval from CRS and USAID to dispose of unfit commodities and remove them from inventory records. These are time-consuming and often impractical procedures, and explain the problems noted by the auditors at fourteen counterparts and eleven operating partners.

### Fitness/Infestation

3. The auditors did not, as the report implies, take commodity samples from fourteen different distribution sites. Rather, they collected fourteen samples from three counterparts and five operating partners. Their method of collecting samples -- taking caked or damp samples from a corner of a bag -- was not done scientifically. Unfit commodities are not distributed, and at no time did the auditors observe such distributions. The unfit commodities seen by the auditors were awaiting disposal, not distribution.

Regarding issues of fumigation and fitness testing, warehouse fumigation is a carefully controlled activity which can only be used in a limited way and then only in response to widespread infestation.

### Dunnage/Stacking/Segregation/Stock Rotation

4. Mats and polyurethane sheets are acceptable as dunnage for warehouses with raised foundations.

5. Stacking and segregation problems most frequently arise in smaller operating partner warehouses. Since commodities are rarely stored at this level for more than two to three months, these problems do not usually lead to serious commodity losses. Counterpart/operating partner warehouses are not commercial operations: there is no daily activity, and stocks are rotated by part-time workers when distributions occur, an average of two times per month.

### Physical Storage

6. The country-wide storage capacity of counterpart/operating partner warehouses is approximately 40,000 MT, which is more than adequate for the current level of program activity. The incidence of inadequate warehousing found by the auditors, three of 21 counterparts and ten of 115 operating partners, is small. A plan to upgrade these facilities is under preparation.

### Clearing and Forwarding Agent Warehousing

7. Although responsibility for reconstitution lies with shipping agents, and clearing and forwarding agents are responsible for storage, the auditors state that CRS should perform a greater liaison role to ensure that the interests of the program are safeguarded. CRS agrees that many loss and storage problems can be attributed to C&F agents upon whom CRS depends to transport commodities to remote distribution points throughout India. CRS maintains weekly, and often daily, contact with C&F agents, the Ministry of

Welfare, and USAID. Continued efforts, supported by USAID, are required to mitigate these difficulties.

### Recommendations

While CRS takes exception with some of the conclusions and examples provided in this section, we do agree that improvements are required in the warehousing and storage practices at a few counterparts and some operating partners. From 1979 to 1984, CRS and USAID jointly funded a Food Storage Improvement Project. Unfortunately, the nature of project assistance is that it is time-bound, while Title II programs require continued training and orientation for field staff. CRS plans to provide funding for warehouse construction and repairs, and to revive training programs for counterpart and operating partner staff in storage practices. CRS has already engaged a consultant to assist in this effort.

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### CONCLUSION

CRS usually finds audits to be constructive. This non-federal audit of the CRS India Program was, in the opinion of CRS, unduly prolonged and not always helpful. CRS finds the report excessively negative, with very little acknowledgment of the context in which the Title II program is implemented. Many comments are based on speculation and lack substantiation.

The report's recommendations will focus more attention on the review of current USAID and CRS policies and procedures, and improve program management in a difficult operating environment. Corrective actions have already been initiated to mitigate the weaknesses identified in this report. While this audit has been an expensive one for both CRS and USAID, CRS is committed to continued investment in India to assist the many poor people for whom the program provides great benefit.

This particular audit was performed by a contractor with limited prior experience in Title II activities. Given our experience during this audit, we question whether the interests of CRS, USAID and the American public would not have been better served had this audit been performed by the staff of the Inspector General's Office, staff skilled and familiar with Title II programs throughout the world.

MISSION'S COMMENTS TO DRAFT REPORT

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NEW DELHI 010267

ACTION AID4 INFO DCM

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OO RUEHGP  
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FOR RIG/A/S

F.O. 12356: N/A  
SUBJECT: MISSION COMMENTS ON RIG/A DRAFT AUDIT REPORT ON  
CRS TITLE II PROGRAM (CALCUTTA/COCHIN ZONES)

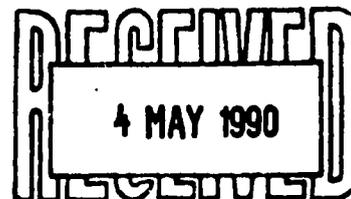
MISSION CONCURS WITH FINDINGS AND RECOMMENDATIONS  
CONTAINED IN PRICE WATERHOUSE NON-FEDERAL AUDIT OF CRS  
CALCUTTA AND COCHIN ZONES. AS DISCUSSED WITH RIG/A/S,  
ONLY ONE CRS ACTION PLAN WILL BE REQUIRED TO CLOSE AUDIT  
RECOMMENDATIONS FOR THIS AUDIT AND EARLIER ONE ON  
MADRAS/ BOMBAY ZONES. CLARK

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**LIST OF ABBREVIATIONS**

<b>AER</b>	-	<b>Annual Estimate of Requirements</b>
<b>C&amp;F</b>	-	<b>Clearing and Forwarding Agent</b>
<b>CP</b>	-	<b>Counterpart</b>
<b>CRS</b>	-	<b>Catholic Relief Services, India</b>
<b>CSB</b>	-	<b>Corn Soya Blend</b>
<b>CSM</b>	-	<b>Corn Soya Milk</b>
<b>CSR</b>	-	<b>Commodity Status Report</b>
<b>FFW</b>	-	<b>Food-For-Work</b>
<b>MCH</b>	-	<b>Maternal Child Health</b>
<b>OP</b>	-	<b>Operating Partner</b>
<b>RSR</b>	-	<b>Recipient Status Report</b>
<b>USAID</b>	-	<b>Office of United States Agency for International Development, New Delhi (The Mission)</b>

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