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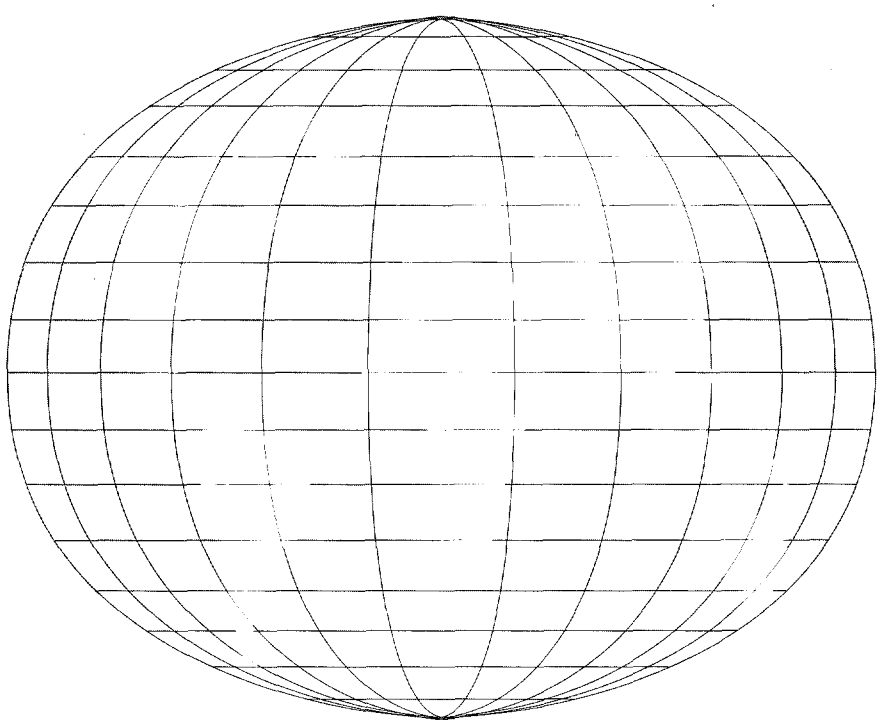
Report of Audit

Performance Audits

AUDIT OF USAID/PERU'S MANAGEMENT OF NON-EMERGENCY TITLE II FOOD AID PROGRAMS

Report No. 9-527-96-007
September 20, 1996



OFFICE OF INSPECTOR GENERAL
U.S. AGENCY FOR INTERNATIONAL DEVELOPMENT

Performance Audits

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EXECUTIVE SUMMARY

The Agricultural Trade Development and Assistance Act of 1954 (Public Law 480), as amended, is the statutory authority for the Title II Food for Peace Program. The Title II program in Peru was designed to address the food security needs of the extremely poor--about 18 percent of the country's 23 million people in 1994. As a result of a new Food Security Strategy for Peru, a reduction in terrorism, and USAID's new Food Aid and Food Security Policy Paper, USAID/Peru's food aid programs were refocused during fiscal year 1996 and generally redirected to Peru's Sierra region where the majority of the extremely poor live.

The Division of Performance Audits audited USAID/Peru's management of non-emergency Title II food aid as part of a worldwide audit requested by USAID/Washington's Bureau for Humanitarian Response. The Bureau's basic concern was whether food aid programs in the field are well managed and adequately staffed. To address this concern, we determined whether (1) the Mission and its private voluntary organization (PVO) cooperating sponsors had an adequate management structure to ensure that food aid is targeted to the most needy people, (2) the structure ensured that the aid reached the intended beneficiaries, and (3) the Mission had progressed toward achieving the intended results of food aid activities.

The following summarizes the results of our audit:

- USAID/Peru and the cooperating sponsors did not yet have an adequate management structure to ensure that the food aid is targeted to the most food-needy people. The Mission was in the process of implementing such a structure. However, improvements could be made in implementing and monitoring the programs to better target the food aid (page 5). Further, the cooperating sponsors followed divergent policies for how long to continue beneficiaries in nutrition programs and significant efficiencies could be achieved by following the practices of the most efficient sponsor (page 11).

- Although our limited tests did not detect any major food losses from certain weaknesses in the management structure, improvements were needed to better ensure that the food aid--the food, monetization proceeds and program income--is not stolen or wasted, and to administer the aid more efficiently. For instance, USAID/Peru and the cooperating sponsors needed to increase their oversight over the food activities (page 16). The cooperating sponsors were inconsistent in controlling the food through their financial accounting records and in subjecting the accountability for the food to financial audit (page 20). Significant efficiencies could be achieved by standardizing the size of food rations for similar activities and beneficiaries (page 23). Similarly, the efficiency and impact of the program could be improved by establishing work standards for food-for-work activities, giving food rations in proportion to the work done and limiting beneficiaries to the minimum needed (page 29). With respect to the monetization program, the cooperating sponsors needed to collaborate to obtain the best prices for transporting food and shift as much of the cost as possible to other sources of funds (page 33). Further inconsistencies existed between the amounts of food that cooperating sponsors requested and the amounts that their program documents indicated was needed (page 36). Finally, there was an opportunity to save funds by having the cooperating sponsors apply for an exemption from Peru's 18 percent value-added tax on the food aid (page 38).

- It was too early to measure the results of the cooperating sponsors' recently approved fiscal year 1996 programs, which constituted a major reorientation from their earlier programs. Also, late in the audit the Mission decided to change the integration of its food aid activities within its strategic framework. The framework it was following during the audit had a number of shortcomings which need to be remedied in the new integration: (1) the cooperating sponsors were not aware of the specifics contained in the Mission's framework; (2) the Mission lacked a documented analysis to support the plausibility of accomplishing higher level targets based on achieving lower level targets; (3) the intermediate result indicators were more process- than impact-oriented; (4) the strategic framework's baselines were not well supported; and (5) the targets did not agree with the cooperating sponsors' program documents (page 40). Further, the cooperating sponsors' systems to manage for results had various weaknesses regarding the support, collection, review and reporting of information on program progress and impact (page 44). Finally, although the Mission expected to phase out food aid activities in Peru over the next several years, it had not explicitly defined the indicators, targets and timeframes for doing so (page 47).

While agreeing with most of the report's findings and recommendations, USAID/Peru officials disagreed with our conclusion that the Mission and cooperating sponsors did not yet have an adequate management structure to ensure food aid is targeted to the most needy people and they requested that several recommendations be eliminated. Appendix II contains the complete text of the Mission's comments. We considered the Mission's comments and separate comments received from the Mission's four PVO Title II cooperating sponsors in preparing this final report. An evaluation of management's comments on specific findings is included in the report following each finding.

Office of the Inspector General

Office of the Inspector General
September 20, 1996

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INTRODUCTION

Background

The Agricultural Trade Development and Assistance Act of 1954 (more commonly referred to as Public Law 480), as amended, is the statutory authority for the Title II Food for Peace Program. The intent of the legislation is to promote food security in the developing world through humanitarian and developmental uses of food assistance. Food security is satisfied when a nation's people have sufficient food to meet their dietary needs for a productive and healthy life. USAID is responsible for implementing food aid programs under Titles II and III of the Act.

At the beginning of the 1990s Peru was at an economic low point. Inflation rose to 7600 percent and per capita income levels fell to the levels of the 1950s. The ranks of the poor swelled and consumption per capita by the poorest 20 percent of the population declined by 60 percent. On top of this was an ongoing terrorist threat which kept Peru's countryside and some of its most economically disadvantaged zones in conditions of civil strife.

By one estimate, in 1990 the amount of food per person per day that was available for consumption in Peru was 1837 calories compared to the standard of 2300 calories used as one of the cutoff points for eligibility under the Title III program. A survey in 1992 showed that for Peru's children under five years of age the rate of global malnutrition (inadequate weight for age) was 10.8 percent, the rate of acute malnutrition (inadequate weight for height) was 1.4 percent, and the rate of chronic malnutrition (inadequate height for age) was 36.5 percent. While conditions have improved, in 1994, about 18 percent of Peru's population of about 23 million still lived in extreme poverty--too poor to afford a basic food basket meeting international requirements for energy and protein. An estimated 806,000 of these extremely poor people were children under five years of age.

For the fiscal year 1992-1996 period, the amount of Title II food aid received or authorized for Peru was as follows[1]*:

FY 92	FY 93	FY 94	FY 95	FY 96
$68.8	$68.6	$73.1	$46.2	$51.0
142.3MT	151.2MT	146.9MT	138.8MT	89.5MT

* dollar amounts in millions, metric tons (MT) in thousands

Four private voluntary organizations (PVOs) implemented the above food aid programs: ADRA/OFASA, CARE, Caritas del Peru and PRISMA[2].

The cooperating sponsors' programs were considerably refocused in fiscal year 1996 as a result of two documents: (1) a December 1994 Food Security Strategy for Peru sponsored by USAID/Peru which led to a greater emphasis on moving food aid programs to the more needy areas of the country, and (2) USAID's new Food Aid and Food Security Policy Paper issued February 1995. The Policy Paper affords highest priority to food aid programs seeking to: (1) increase agricultural productivity, particularly for small farmers and the poor; and (2) improve household nutrition, especially of poor children and mothers.

1 Not reflected in the table are other U.S. food assistance not included in the scope of our audit. These other sources included Title II supported food aid activities of the World Food Program, USAID's Title III program and the U. S. Department of Agriculture's Section 416 program. The source of the data in this table and in the table on page 3 comes from USAID's P.L. 480 Title II FY 1996 Approved Quantities report. This data was not audited.

2 The full names of the four PVO cooperating sponsors are as follows:

(1) ADRA/OFASA - Adventist Development and Relief Agency/Obra Filantropica y Asistencia Social Adventista. In English, the acronym OFASA translates roughly as philanthropic work and Adventist social assistance. ADRA/OFASA is the Adventist Development & Relief Agency International's local affiliate in Peru.

(2) CARE - Cooperative for American Relief Everywhere, Inc.

(3) Caritas del Peru - Caritas is roughly the Peruvian equivalent of the U.S. organization Catholic Relief Services and/or Catholic Charities.

(4) PRISMA - Asociacion Benefica PRISMA. PRISMA stands for Proyectos en Informatica Salud Medicina y Agricultura. In English this would roughly translate to Beneficial Association, Projects in Medical Health Information and Agriculture.

Presently, ADRA, CARE and Caritas conduct both food-for-work and nutrition projects, while PRISMA specializes in nutrition projects. A major portion of the overall commodity amounts is sold (monetized) when it reaches Peru to generate cash for the cooperating sponsors' administrative expenses, in country transportation of commodities, and for local purchase of food commodities for certain subprograms. The table below shows a breakdown of the cooperating sponsors' approved fiscal year 1996 programs*:

Program	ADRA	CARE	Caritas	PRISMA
Food-for-Work	$2.9	$3.4	$5.9	-
Nutrition	$2.9	$5.8	$5.0	$5.9
Monetization	$3.4	$7.3	$4.4	$4.2

*dollar amounts in millions

For fiscal years 1990 to 1995, food aid varied between 80 and 45 percent of USAID/Peru's overall assistance program. To manage its Title II food aid program, the Mission assigned one U.S. direct hire Food for Peace Officer and two foreign national technical supervisors.

Audit Objectives

The Division of Performance Audits audited USAID/Peru's non-emergency Title II food aid programs as part of a worldwide audit of such programs. The worldwide audit was requested by USAID/Washington's Bureau for Humanitarian Response which basically wanted to know whether the programs are adequately managed and, if not, whether the problems are due to inadequate staffing. The specific audit objectives were:

- Did USAID/Peru, together with its cooperating sponsors, have an adequate management structure to ensure that food aid is targeted to the most needy people?

- Did USAID/Peru, together with its cooperating sponsors, have an adequate management structure to ensure that food aid reaches the intended beneficiaries?

- Has USAID/Peru progressed toward achieving the results of food aid activities as intended in Mission and cooperating sponsor planning documents?

REPORT OF AUDIT FINDINGS

Did USAID/Peru, together with its cooperating sponsors, have an adequate management structure to ensure that food aid is targeted to the most needy people?

USAID/Peru and the cooperating sponsors did not yet have an adequate management structure to ensure that food aid is targeted to the most needy people. However, the Mission was in the process of implementing such a management structure.

Basically, the structure was to have the cooperating sponsors consider nationwide statistics on poverty and malnutrition in locating their projects and to select beneficiaries within the communities served based on their indicated need. Additionally, the Mission planned to monitor where its food aid programs were located. While the concept was good, it was only partially implemented at the time of the audit and the Mission was still deciding on how best to proceed. In a related matter, the review also noted there was a wide variation among the cooperating sponsors regarding how long beneficiaries remained in their nutrition programs before being graduated.

There has been a substantial improvement in the targeting of the Mission's food aid programs in the last year or two. In past years, the cooperating sponsors were allowed to pursue programs with less restrictive geographical and beneficiary targeting criteria than presently. A reduction in terrorist activity together with the Mission-supported Food Security Plan for Peru have led to a general redirection of food resources to the more needy Sierra region of Peru. Also, the Agency's new Food Aid and Food Security Policy Paper's emphasis to focus food aid on the most needy, and on agricultural production and household nutrition, resulted in closing some food programs. For example, preschool feeding programs were dropped, and support to community kitchen operations servicing the general public was directed to be phased out.

Also, in formulating their new program proposals for the fiscal year 1996-2000 period, the cooperating sponsors adopted procedures to identify geographical areas of need and, for their nutrition programs, specified need-based criteria for selecting individual beneficiaries. Further, the Mission coordinated its food aid program with the Government of Peru and other donors, although not on a detailed level, and the Mission had begun compiling recent census information on child malnutrition rates and unsatisfied basic needs for the purpose of monitoring the cooperating sponsors' geographical targeting.

The actions taken by the Mission to assure food aid is targeted to the most food-needy people are positive. However, we did note two areas where improvements could be made.

Geographical Targeting Procedures Could Be Strengthened

Public Law 480 and Agency policy support programming food aid resources to address the greatest needs in terms of hunger and malnutrition. Cooperating sponsors did not always locate their food aid projects in the areas of greatest need and in some instances operated in close proximity to each other or the food aid projects of other organizations. The Mission was not monitoring the cooperating sponsors' targeting practices because it was not yet organized to do so and was still considering alternate approaches. As a result, the Mission had reduced assurance that its food aid program was targeted optimally.

Recommendation No. 1: We recommend that USAID/Peru:

1.1 monitor on an annual basis whether each cooperating sponsor has followed a reasonable process and followed the Mission's direction in selecting the communities within which they will conduct USAID-supported food aid projects;

1.2 expand the Mission's database of district-level information on rates of child malnutrition and unsatisfied basic needs to include child malnutrition rates by individual community, provide the database to the cooperating sponsors to guide them in their community selection process, and use it to monitor whether cooperating sponsors select the most food-needy communities. Also include in the database the community locations of the cooperating sponsors' food aid projects and, to the extent practical, the locations of food aid interventions of the Government of Peru and other donors; and

1.3 during the Mission's field visits, evaluate whether the cooperating sponsors have followed their approved program criteria for selecting food aid program beneficiaries.

Among the multiple purposes of Title II assistance is to combat malnutrition and hunger. Public Law 480 states that to ensure agricultural commodities made available under Title II are used effectively and in the areas of greatest need, organizations through which such commodities are distributed shall assess and take into account nutritional and other needs of the beneficiary groups. Also, USAID's Food Aid and Food Security Policy Paper states that for all types of food aid programs USAID will allocate resources and manage programs to increase the impact U.S. food aid has in reducing hunger.

There are two censuses that the Mission usually refers to in the geographical targeting of its food aid program. The first is a Ministry of Education census sponsored by UNICEF of the malnutrition status of first graders throughout Peru. The UNICEF study includes statistics both at the district level and at the level of individual schools within communities. It therefore could be used in decisions to target specific communities for food aid projects.

The second census is of unsatisfied basic needs (necesidades basicas insatisfechas - NBI) which serves as a proxy to identify poverty levels. Extreme poverty is considered to relate directly to being food insecure. The NBI ratings, which are available by district, did not correlate well with the degree of malnutrition indicated by the UNICEF census. For this reason, we used the UNICEF statistics to assess whether food aid projects were located in the most food-needy areas.

During fiscal year 1995, the Mission worked with the cooperating sponsors to reorient their programs in line with the Food Aid and Food Security Policy Paper's emphasis that food aid be given to the most needy and the Food Security Strategy for Peru that emphasized the Sierra region. As part of this process, the cooperating sponsors indicated in their program proposals that they would consider the UNICEF and NBI censuses in determining where to locate their food aid projects.

However, while these were positive accomplishments on the Mission's part, we found the Mission had not yet followed through to ensure that the cooperating sponsors were locating their projects in the most food-needy communities in their operating areas. Specifically, we noted that:

a. Certain cooperating sponsors did not consider malnutrition information in locating communities for their food-for-work projects. Also, although malnutrition information was considered for nutrition projects, for certain cooperating sponsors it was referred to only in a very general way and had no effect on where they chose to locate their operations. For instance, personnel at the Cusco regional office of ADRA stated they had considered the UNICEF information at the province level (the next level above districts) but it did not drive the decision on which provinces they would operate in. They stated their choice to operate in the area immediately surrounding their regional office was mainly based on ease of access and operating cost.

b. The Mission did not monitor the cooperating sponsors' community selection process nor, for that matter, did it have information to assess whether the most food-needy communities had been selected.

It did not have information on which communities the cooperating sponsors had located their food aid projects in. However, it requested the cooperating sponsors to submit an annual workplan for fiscal year 1996 including information on which districts the sponsors were working in.

It did not have information on the rates of child malnutrition within communities. It compiled information from the UNICEF census on the child malnutrition rates of Peru's districts, but not for individual communities.

c. The Mission had no information on where the food aid projects of other donors or the Government of Peru were located, so it was in no position to assess whether there might be a duplication of coverage between USAID and non-USAID supported projects. It did meet with some of the donors periodically but those meetings did not provide information on specific project locations.

In our field visits, using as a guide the district level information from the UNICEF census compiled by the Mission, we noted instances where projects were located in some of the relatively less needy districts. Also, we noted certain instances where the cooperating sponsors were operating projects in close proximity to each other, and instances where the cooperating sponsors and the Government of Peru's main food agency were in the same community. (See Appendix III for examples.)

We attribute the above conditions to the fact that the Mission was in the first year of a major reorientation of its food aid program and was still deciding how best to manage the targeting of food aid. For instance, the Mission was reticent to direct the cooperating sponsors to use a given set of information or follow a set procedure for selecting communities to have food aid projects. The rationale was that the cooperating sponsors, being closer to the beneficiary level, have a better idea of where the needs are and other operational considerations.

While we do not disagree with the above rationale, we see a need for the Mission to guide and monitor the overall process so as to encourage the cooperating sponsors to move their operations to the most needy geographical areas.

As an alternative to monitoring cooperating sponsors' geographical targeting practices, the Mission's Food for Peace Officer proposed monitoring instead whether the cooperating sponsors were following their approved program criteria for selecting beneficiaries. His argument was that the location of the project was not as important as the selection of the beneficiaries. As long as the beneficiary is part of that relatively small subgroup of Peru's total population that the food aid program is directed at then, by virtue of the size of the food aid program, the Mission considers that it will have a significant impact.

We had no basis to evaluate whether the Mission's food aid program would meet its program results targets if the food aid was given to beneficiaries throughout the country without a scheme to concentrate the resources in a particular region. However, we note that the Mission's results framework at the time of the audit in March 1996 held the Mission responsible for achieving reductions in child malnutrition rates in Peru's Sierra region. Therefore, not directing all the food aid resources there would reduce the potential for achieving maximum impact.

We believe that the Mission needs to do something more than just monitoring whether the cooperating sponsors are following their beneficiary selection criteria. To start with, the Mission was not even monitoring the sponsors' compliance with their own beneficiary selection criteria. Second, certain cooperating sponsors did not use malnutrition data for selecting beneficiaries for their food-for-work programs. Third, only one of the cooperating sponsors had validated its beneficiary selection criteria to prove that its program was directed at the right people.

Further, monitoring whether the sponsors follow the approved selection criteria for beneficiaries would not highlight situations where there is a potential duplication or an over concentration of program coverage in one area at the expense of not meeting more critical needs elsewhere.

We also believe that locating projects in more food-needy communities does have the potential to result in greater impacts. For instance, assuming equal population sizes, a community with a 75 percent child malnutrition rate would have a greater food aid need than a community with a 45 percent rate. Logically, locating a project in the community with the higher rate would have greater potential for reducing hunger. This is particularly true for food-for-work projects directed at increasing agricultural production.

In order to maximize the impact on reducing hunger, the Mission should assure that its food aid resources are, to the extent practical, directed to the most severe food need locations. The present system established by the Mission to target food aid resources needs to be tightened considerably to assure the most food-needy areas and beneficiaries are targeted. Part of the Mission's system to achieve this end should include tracking the locations of the Mission's and other organizations' food aid projects to avoid duplication or over concentration of coverage.

Management Comments and Our Evaluation

The Mission stated that it believes it and the cooperating sponsors have a management structure that ensures food aid is targeted to the most needy people. While agreeing with part 1.4 of the recommendation, the Mission stated that parts 1.1, 1.2 and 1.3 should be eliminated because of serious shortcomings with geographical targeting mechanisms. (Note: Based on the Mission's comments to the draft report we eliminated the original recommendation for part 1.1 and have renumbered the other parts of the recommendation correspondingly. Hence the recommendation in this report contains only three subparts.)

The Mission's preferred alternative is to require the cooperating sponsors to adopt beneficiary selection criteria to ensure that beneficiaries are "extremely poor", "food insecure", malnourished, or at risk of malnourishment and then give the cooperating sponsors flexibility on where to locate their projects taking into account cost, the cooperating sponsors' technical, logistical or institutional advantages, and where a critical mass of needy beneficiaries justify a presence.

The Mission further stated that, by and large, the cooperating sponsors avoid operations in areas where other food aid institutions are operating, but that this criteria should and will be made an explicit selection criterion for Title II projects.

Lastly, the Mission stated that its new strategic plan no longer contains a performance indicator to reduce malnutrition in the Sierra region of Peru, so that indicator cannot be used as an argument for concentrating resources in the Sierra.

As stated in the audit finding, the auditors are aware that the Mission's preferred alternative is to simply monitor whether the cooperating sponsors are following their beneficiary selection criteria. However, there are certain shortcomings with simply following such an approach.

Notwithstanding the Mission's statement that, by and large, the cooperating sponsors avoid operations in areas where other food aid institutions are operating, the Mission did not have a means for monitoring whether this was actually the case. Should, as it appears to be the case, the Mission abandon its approach of compiling information centrally on the locations of the cooperating sponsors' food aid projects and to the extent practical the locations of food aid interventions of the Government of Peru and other donors, then an alternative mechanism would be needed for monitoring potential duplication.

A possible alternative mechanism would be to require the regional offices of the cooperating sponsors to contact other food aid organizations in their regions to determine the specific locations of their projects. The regional offices could document their efforts and results and this documentation could be reviewed and considered during Mission field visits.

The Mission's preferred alternative also suggests that the Mission is not trying to show an impact for any particular regional area within Peru and that it is not concerned about whether available food aid is spread equitably across a given geographic area to address overall needs. If this is the case, then there certainly could be a savings in logistics costs if the Title II food aid program was retracted back to the major cities around Peru's ports where the food aid is brought in. We doubt, however, whether such a strategy would be acceptable to either the Mission or USAID/Washington's Food for Peace Office, since the emphasis in the 1995 round of cooperating sponsor program approvals for Peru was to reorient the programs to the rural Sierra region of the country. We believe the Mission needs to make very clear what its trying to accomplish and then try to do that as cost effectively as possible.

Given that cooperating sponsors are required to establish baselines on community malnutrition rates for their food aid projects, we have eliminated that part of the recommendation (the original part 1.1) that the Mission direct the cooperating sponsors to use malnutrition information at the community level as available in the UNICEF study in their processes of selecting communities within which to operate.

Also, if the Mission proposes an alternative to establishing a central database as a methodology for monitoring whether cooperating sponsors have located their projects to avoid duplication of effort, such alternative methodology would be acceptable for addressing part 1.2 of the recommendation (previously part 1.3).

However, we believe there is a need for the Mission to monitor the cooperating sponsors practices for locating their projects. Hence, part 1.1 of the recommendation (previously part 1.2) is retained.

Wide Variations in the Graduation
<u>Rate Efficiencies of Nutrition Programs</u>

USAID's goal is to use food aid resources effectively and efficiently. One cooperating sponsor had a very effective nutrition program with well-defined graduation criteria and targets that could serve as a model of the graduation rates achievable under nutrition programs. The other three cooperating sponsors had not precisely defined the total set of activities and changes they were trying to accomplish and the end point a beneficiary should reach to be graduated from a project, i.e. rations discontinued. Nor had they set percentage graduation targets to drive the efficiency and effectiveness of their programs. The emphasis of these cooperating sponsors was more relief- than development-oriented and they had different program approaches and philosophies. Providing food rations to beneficiaries longer than necessary converts the programs from development back to relief or, worse, dependence. The resources could be used to address the development needs of other beneficiaries. For instance, two cooperating sponsors could save commodities costing about $2.5 million annually by following the model.

> **<u>Recommendation No. 2</u>: We recommend that USAID/Peru perform the following:**
>
> **2.1 require the cooperating sponsors to precisely define graduation criteria and timeframes for their nutrition programs and establish management information systems**

and policies and procedures to assure beneficiaries are graduated once they reach that level;

2.2 require the cooperating sponsors to set percentage graduation rate targets that the Mission can use to directly assess the efficiency of the four programs, and have the cooperating sponsors report their accomplishments against these targets semiannually;

2.3 once the cooperating sponsors have precisely defined the activities involved in their nutrition interventions and the end point to be reached to graduate beneficiaries, and set their graduation rate targets, the Mission should compare the various nutrition programs to identify significant differences which reduce the graduation rate efficiency relative to the rates achieved under the most efficient program and work with the cooperating sponsors to improve their graduation rate efficiency; and

2.4 determine whether the alternative approaches to conducting the nutrition programs found to be relatively less efficient can be justified based on objective evidence of their superior effectiveness. If not, support to the less efficient programs should be reduced.

USAID's food policy paper states that the Agency's and cooperating sponsors' goal must be the effective and efficient use of food aid resources. Also, the Mission's proposed strategic plan included an intermediate result indicator and target for the graduation rate from the cooperating sponsors' nutrition programs. The graduation rate is defined as the rate the beneficiaries have fulfilled the necessary criteria (e.g. nutritional recuperation, etc.) and leave the program. This indicator is extremely important as it is one of the few that indicates progress in program coverage.

One cooperating sponsor had a very effective nutrition program (PRISMA's Program of Feeding and Nutrition to the High Risk Family - PANFAR) that could serve as a model of the graduation rates achievable under nutrition programs.

The PANFAR program, implemented through Government of Peru health posts, has the following graduation criteria: children have not been acutely malnourished in the last three months, children have completed their vaccination schedules, pregnant mothers are receiving pre-natal care, mothers have received family planning counseling or are using a modern contraceptive method, and mothers have attended at least three education workshops. PRISMA considers that the basic needs to be addressed by nutrition programs are considered in the PANFAR program--the initial nutritional recuperation, the medical inputs such as vaccinations, and the training of the mothers on health, nutrition, family planning, etc.

Despite establishing impact targets and indicators for their overall nutrition programs, the other three cooperating sponsors had not precisely defined the total set of activities and changes they were trying to accomplish and the end point a beneficiary should reach to graduate from a project, i.e. rations discontinued. These cooperating sponsors additionally had not developed (or modified) their management information systems to the extent needed to allow their headquarters to monitor compliance with the graduation policy. Also, they had not set percentage graduation targets to drive the efficiency and effectiveness of their programs. Details on several of the cooperating sponsors' nutrition programs follow:

Programs directed at the family level:

PRISMA's PANFAR program
45 percent graduation rate target in six months. (Actual graduation rate reported for fiscal year 1995 was 40 percent after six months.) If all the graduation criteria are not met, the families can stay another six months. The graduation criteria are defined. (This program is the model because it uses a smaller ration size and takes a shorter period of time to achieve this result.)

PRISMA's Happy Community (Kusiayllu) program
65 percent graduation rate target in six months. (Actual graduation rate reported for fiscal year 1995 was 53 percent after six months.) Although only acutely malnourished children enter the program, the graduation criteria are the same as PANFAR. (This program is not the model since it uses double the ration size of the PANFAR program. However, it does have superior results in a short period of time.)

Caritas' Mother-Child program
No graduation rate targets or detailed definition of what constitutes the completion of the planned program. Expectation is that families will remain in the program a minimum of one year and a maximum of two years.

ADRA's Infant Nutrition program

No graduation rate targets or detailed definition of what constitutes the completion of the planned program. Plan is to keep the beneficiaries in the program for 20 months. Nutritional rehabilitation of the children and training of the mothers is completed much sooner. Ration size is one of the largest, on a par with PRISMA's Kusiayllu program.

Programs directed at the individual child level:

CARE Nutritional Improvement subproject

No graduation rate targets or detailed definition of what constitutes the completion of the planned program. CARE indicated that it intended to follow the PANFAR model.

Caritas' Children-at-Risk program

No graduation rate targets or detailed definition of what constitutes the completion of the planned program. Expectation is an average of one year. Child is supposed to be graduated when nutritionally recuperated, but Caritas did not have this policy in writing and did not enforce this policy.

Three of the four cooperating sponsors had not established precise graduation criteria and targets for their nutrition programs because the programs' emphasis was more relief- than development-oriented. Also, the different cooperating sponsors had different program approaches and philosophies. For instance, the main reason ADRA's projects last so long was that it attempts to create a self-sustaining entity to continue the work of the project after support is discontinued. However, ADRA did not provide evidence that it had been successful in establishing such self-sustaining entities or that they were even needed considering that Peru's established health post structure operates the PANFAR program in some of the same areas where ADRA also operates. Also, ADRA did not have evidence that the establishment of such entities required continuing rations to beneficiaries beyond the point of their nutritional rehabilitation.

While different approaches and philosophies can be supported as long as objective evidence can be obtained to show that they are comparatively as cost effective as the model program, providing food rations to beneficiaries beyond the point of nutritional recuperation and completion of planned training converts the programs from development back to relief or, worse, dependence. The resources could be used to address the development needs of other beneficiaries. For instance, if Caritas and ADRA used the PANFAR model and had a similar graduation rate of 40 percent after six months, their programs would save commodities costing approximately $2.5 million annually.

Management Comments and Our Evaluation

Even though the Mission stated that Recommendation No. 2 (parts 2.1, 2.2, 2.3 and 2.4) regarding graduation criteria and timeframes should be eliminated, its comments indicate that it has taken action to implement the recommendations. Its new performance and monitoring plan will use a series of more revealing indicators, across the four cooperating sponsors, to monitor the effectiveness of program coverage. When these minimum "graduation" indicators are met, the cooperating sponsors will cease food rations to beneficiaries. Moreover, variations in the percentages between cooperating sponsors will indicate "efficiency" or the opposite, and the need to modify or improve sponsor interventions.

We consider that the Mission's planned actions satisfy the intent of the recommendation.

Did USAID/Peru, together with its cooperating sponsors, have an adequate management structure to ensure that food aid reaches the intended beneficiaries?

For the items tested, the Mission and cooperating sponsors had management structures in place to ensure that food aid reaches the intended beneficiaries. However, our review was too limited to provide reasonable assurance that no major losses are occurring throughout the total program.

The Mission's management structure involved reviews of cooperating sponsor reporting, field visits, and a contracted 100 percent financial review of the cooperating sponsors' monetization expenditures. The cooperating sponsors had detailed operations and accounting systems. A paper trail of documentation was generated as commodities and cash moved through these systems from their receipt to their final expenditure. Supervision was an essential part of the cooperating sponsors' management structure, including regional office reporting to headquarters, headquarters' supervisory visits to regional offices and project sites, and regional office oversight of individual project sites.

While the design of the management structures was generally sound, various areas needed improvement. Chief among them was the adequacy of Mission and cooperating sponsor management oversight over the food aid programs. Additionally, there were a number of opportunities to increase the efficiency of the programs and save money. The problems and opportunities are detailed below.

Management Oversight Should be Strengthened

USAID policies and Regulation 11 require missions and cooperating sponsors to manage all aspects of Title II programs in their respective countries. As noted throughout this report, there were multiple areas where management oversight could be improved. Inadequacies at the Mission, cooperating sponsor headquarters and regional levels included the frequency and scope of supervisory visits, commodity and monetization funds management, and review of reported information for accuracy and completeness. The deficiencies may be partially the result of limited personnel and resources at the Mission as well as at the cooperating sponsors. Adequate management oversight at all levels is needed to assure food aid resources are adequately controlled and directed in the most effective and efficient manner.

Recommendation No. 3: We recommend that USAID/Peru:

3.1 establish a plan on the minimum cycle of Mission supervisory visit coverage of the functional areas within the cooperating sponsors' headquarters and all of the cooperating sponsors' field offices. This plan should specify the areas to be covered during such visits and require documentation of the proper functioning of the sponsors' systems for controlling commodities, monetization funds and program income, and for managing for results;

3.2 monitor and assess the adequacy of the field supervisions by the cooperating sponsors' headquarters. As part of this monitoring, the Mission should routinely obtain copies and review the cooperating sponsors' trip reports and evaluations, and documentation of follow up done by the cooperating sponsors to assure noted problem areas have been corrected;

3.3 stop the practice of reviewing monetization expenditures on a 100 percent basis. Instead, contract with a firm or firms to perform a risk assessment to determine which types of transactions are more susceptible to fraud

considering the functioning of each cooperating sponsor's internal control systems, and have the firms propose a reduced level of surveillance following sampling procedures. The savings from not reviewing every transaction should be used to either increase the depth of review in areas assessed to have higher risk or make other monitoring improvements; and

3.4 **discuss with USAID/Washington's Food for Peace Office and the cooperating sponsors the possibility of using monetization funds to contract for additional staff within the Mission and cooperating sponsors to oversee the programs.**

Handbook 9, Chapter 6[3] states that USAID missions have the responsibility for U.S. Government oversight of Title II programs in-country, and must submit a Food Aid Management Plan before any Title II programs will be approved. The Mission's July 1995 Food Aid Management Plan specified its many responsibilities, including reviewing cooperating sponsors' program proposals, tracking commodity shipments and arrivals, and monitoring the cooperating sponsors' management of commodities and use of sales proceeds.

Also, USAID Regulation 11 states that cooperating sponsors shall provide adequate supervisory personnel for the efficient operation of the program, including personnel to (1) plan, organize, implement, control, and evaluate programs involving distribution of commodities or use of monetized proceeds and program income, (2) make warehouse inspections, physical inventories, and end-use checks of food or funds, and (3) review books and records maintained by recipient agencies that receive monetized proceeds and/or program income.

The Mission and cooperating sponsor management systems provided the necessary oversight in certain respects. At the Mission level, the Food for Development Division performed the above-mentioned responsibilities to the extent possible given its limited staff. In addition, the Controller's Office conducted reviews of the cooperating sponsors' administrative and financial systems, and also reviewed audit reports. Also, the cooperating sponsors' headquarters and regional offices adequately managed the programs in many respects. Nevertheless, the audit discovered certain

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3 As of May 1996, BHR/FFP had not finished incorporating Handbook 9 into the new Automated Directives System.

problems in the management structures at the Mission level and the cooperating sponsor headquarters and regional levels as follows:

- Mission Oversight of Cooperating Sponsors

  - Mission staffing to manage food aid programs was relatively speaking less than the staffing assigned to non-food aid projects. Each of the cooperating sponsors' food aid programs involved $9-16 million per year and was fairly complex and sprawling. Mission staffing directly overseeing these programs was the Food for Peace Officer, and two foreign national staff who oversaw two programs each. Previously, there were four foreign national staff in this area, one for each cooperating sponsor, which would be more reasonable. Other Mission technical offices had separate foreign national staff supervising projects of smaller dollar value. Considering the tight constraints on the Mission's operating expense funds, this report does not include a recommendation to increase staff. However, that would obviously be desirable.

  - The Mission needed to make more field visits and have more contact time with cooperating sponsor headquarters. The two foreign nationals and the Food for Peace Officer made a total of 12 field trips during fiscal year 1995 to supervise the food aid program. Given that there are thousands of individual food project sites in most of Peru's 25 departments and many of the nearly 1,800 districts, the number of supervisory visits made was not enough. For example, our audit field visits to two Caritas diocese offices identified numerous problems and the Mission's foreign national supervisor for that cooperating sponsor said he had not visited either location since they had established their food aid programs. The Mission did not have a written plan specifying the minimum cycle of supervisory visit coverage of all the cooperating sponsor field offices, nor a workplan for reviewing the various aspects of the programs when performing such visits.

  - During the past several years, the Mission and cooperating sponsors contracted with a local accounting firm to do a financial review of the support for all expenditures of monetization funds. These reviews, paid with monetization funds, consisted of examining such documentation as purchase requests and invoices. Reviewing all expenditures no matter how small (sometimes less than $1) and no matter what the level of risk, was not an efficient use of this control function and raised the cost of this review, which for fiscal year 1996 was initially projected to cost $264,000.

Cooperating Sponsor Headquarters Oversight of Regional Offices and Regional Offices Monitoring of End Use and Results

- Cooperating sponsor headquarters in some cases needed to: (1) make more supervisory visits, (2) improve their monitoring to ensure that problems noted during field visits were corrected, (3) ensure that they had adequate staffing in the field, and (4) analyze information and reports being submitted by the field.

- Cooperating sponsors' regional offices in some cases needed to: (1) perform end-use checks to ensure that the intended beneficiaries received the correct food rations, and (2) ensure that projects were progressing satisfactorily.

(For examples see Appendix IV.)

The above deficiencies, as well as other problem areas discussed throughout this report, to some degree may be the result of limited personnel and resources at the Mission as well as at the cooperating sponsors. However, the Mission and cooperating sponsors can make some improvements without increasing staffs, and monetization funds might be used to contract for further monitoring support.

In addition to monitoring to assure that commodities and monetization funds are protected and reach the intended beneficiaries, close management attention is needed to assure resources are used as efficiently as possible and results are maximized.

Management Comments and Our Evaluation

The Mission found Recommendation No. 3 to be acceptable except for part 3.3 to stop the practice of reviewing monetization expenditures on a 100 percent basis. The Mission stated that part 3.3 should be eliminated.

The Mission listed a number of points why it felt a continued 100 percent review was justified—the cost relative to the amount of funds being controlled was relatively minor, the same degree of review is done on the Mission's non food aid projects, the Mission uses the information to monitor whether a cooperating sponsor's expenditures exceed the approved budget by more than 10 percent, the Mission relies upon the review when certifying that the cooperating sponsors are accounting fully for monetization proceeds, not much additional work is required to do the review on a 100 percent basis versus a sample, and the review serves to verify the documentation necessary for the recuperation of sales tax from the Government of Peru.

The intent of the recommendation in this case is to save costs without undermining the positive control aspects that the Mission uses the financial review for. In this light, we expect the Mission to obtain and evaluate proposals for a risk-based surveillance scheme, and regarding the points mentioned to assess what, if anything, would be lost under such a scheme versus what would be gained in terms of reduced costs.

If, after obtaining the information on the tradeoffs, the Mission determines that the lost benefits outweigh the costs, we would be agreeable to maintaining the 100 percent financial review. However, please note that reviews are normally done on a sample basis and that the objectives of the control benefits mentioned above appear as though they could be met without reviewing every transaction.

Controls over Commodities Could be Improved
by Inclusion in the Accounting Records

Accounting principles applicable to Title II programs call for including the value of commodities in the financial statements and hence controlling commodities through a cooperating sponsor's financial accounting records. Nevertheless, three of the four cooperating sponsors controlled food commodities only through specialized logistics systems. As a result, there was a lack of cross checking of information between departments that would lead to better controls. Also, the value of the food commodities was not properly included in two of the cooperating sponsors' financial statements and therefore the commodities would not be subjected to the required financial audits. Inadequate controls over commodities leave open the potential for loss of commodities without detection.

Recommendation No. 4: We recommend that USAID/Peru:

4.1 require cooperating sponsors to control Title II commodities through their accounting records and prepare a separate commodity accountability statement as part of their financial statements;

4.2 coordinate with the four cooperating sponsors to develop procedures and select appropriate software programs for the valuation of the commodities; and

4.3 require that audits of the cooperating sponsors include a separate opinion on the commodity accountability statement for their Title II programs in Peru with related reports on the internal controls over commodities and compliance with laws and regulations.

USAID Regulation 11 requires cooperating sponsors to have audits of their Title II food aid programs in accordance with OMB Circular A-133. Financial auditors doing A-133 audits are required to determine whether the financial statements of the institution being audited are presented fairly in accordance with Generally Accepted Accounting Principles (GAAP). Regulation 11 also permits cooperating sponsors to use for their Title II food commodity accounting Generally Accepted Commodity Accounting Principles (GACAP) developed by an association of cooperating sponsors. GACAP states that in terms of accounting the cooperating sponsor shall treat commodities in the same manner as other financial resources.

Further, the <u>Guidelines for Financial Audits Contracted by Foreign Recipients</u>, dated March 1993, and issued by USAID's Office of the Inspector General, directs contracted financial auditors to determine whether any commodities directly procured by USAID are unaccounted for and/or have not been used for their intended purposes in accordance with the agreements. If so, the cost of such commodities should be questioned.

Only one of the four cooperating sponsors (CARE) controlled food commodities through its financial accounting records. The other three (ADRA, Caritas and PRISMA) controlled their food commodities only through the records of their food or logistics departments. Further, only CARE and PRISMA included the value of their commodities in their financial statements, while ADRA included partial information and Caritas none.

ADRA partially included the value of the commodities in its financial statements by including it in its revenue and expense statement, but not as an asset in its balance sheet. Apart from its financial statements, ADRA prepared a commodity accountability statement using commodity value information provided by the Mission.

The reason for ADRA, Caritas and PRISMA not controlling the value of commodities through their financial accounting records was that doing so would require a greater level of effort and possibly additional staff. Instead of controlling both the number of units and the value of commodities through the financial accounting records, these cooperating sponsors established systems which control only the units.

Caritas also stated that its independent financial auditor interpreted certain standard accounting practices as not requiring the inclusion of commodities in Caritas' financial accounting records because the commodities were meant to be immediately transferred to other entities. However, the entities to which the commodities were transferred were diocese Caritas offices, and consequently there was no transfer of control or responsibility from Caritas as an overall organization.

As a result of not controlling commodities through their financial accounting records, the cooperating sponsors did not establish a separation of duties between their accounting and food/logistics departments which would strengthen controls over the accountability for the commodities by creating internal cross checks between the departments. Further, since certain cooperating sponsors did not fully incorporate the value of the commodities in their financial statements, the commodities would not have been subjected to the full range of financial audit procedures.

Inadequate controls over commodities leave open the potential for loss of commodities without detection. While the audit did not identify material losses of commodities, with distribution systems as massive and extensive as those of the cooperating sponsors, it would be prudent to maintain financial accounting control over the commodities to a reasonable level within the distribution chain and to subject the accountability for commodities to financial audit.

We believe that financial accounting control over commodities should extend to the regional warehouse level or such lower level from which the commodities are transferred to the beneficiary communities. Existing control systems over commodity quantities should also remain in place to provide evidence that the commodities reached the approved beneficiaries.

The accountability of the Title II commodities would be increased if the financial auditors were required to include a separate opinion on a cooperating sponsor's commodity accountability statement for the Title II commodities in Peru, with associated reports on the internal control system over commodities, and on whether they are managed in accordance with laws and regulations. Since the cooperating sponsors will be doing OMB Circular A-133 audits in any case, such audits, or audits separately required by the Mission for compelling reasons, are a potential vehicle for the Mission to improve its monitoring of commodity accountability in view of the Mission's limited staff available for monitoring.

Discussions with Mission Controller personnel identified potential problems resulting from the inclusion of the value of commodities in the balance sheets of the cooperating sponsors. Essentially, they considered that there would be a change in the capital structure of a cooperating sponsor and this would require complicated and unnecessary filing requirements with the Government of Peru.

We are not aware of what sorts of problems the two cooperating sponsors who already include the value of the commodities in their balance sheets face in this regard. Mission Controller personnel indicated that this potential problem can be avoided by using financial statement footnotes to disclose the value of the commodities. Under this presentation the Mission could still require the cooperating sponsors to include audited commodity accountability statements to support such footnotes.

For the cooperating sponsors that are not presently controlling Title II commodities through their financial records, additional effort will needed. In order to minimize costs and standardize procedures, the four cooperating sponsors and the Mission should collaborate in the selection of appropriate software programs and development of accounting procedures.

Management Comments and Our Evaluation

The Mission stated that it found Recommendation No. 4 to be acceptable, thus indicating that it agrees to take the recommended actions.

Ration Sizes on Similar Programs Varied Substantially

It is Agency policy to use food aid resources efficiently and effectively. The food ration sizes used by the four cooperating sponsors varied substantially although the beneficiaries served and the activities done were basically the same. Increasing the ration size did not necessarily lead to greater results. The varying ration sizes were largely the result of the different program approaches used by the cooperating sponsors as well as using different information bases and assumptions in the calculation of the appropriate size. If all the cooperating sponsors adopted the more efficient ration sizes used by certain cooperating sponsors, about $6.2 million worth of commodities would be freed up annually which could be applied to achieve greater program impact.

Recommendation No. 5: We recommend that USAID/Peru:

5.1 form a joint committee of the cooperating sponsors to do a comparative analysis of the energy value of the rations used by each of them on their various programs;

5.2 require the cooperating sponsors to use a ration size, in terms of energy value, comparable to the most efficient interventions used by the various cooperating sponsors; and

5.3 require cooperating sponsors to include in their program documents the justifications for their ration sizes. Such information should be presented in a standard format to facilitate comparative analyses across programs and should include information on the beneficiaries' nutritional requirements and their normal food consumption without food aid.

The Food Aid and Food Security Policy Paper states that USAID's goal—and that of the PVO cooperating sponsors—must be the effective and efficient use of food aid resources. The Commodities Reference Guide suggests procedures for determining the ration sizes on various types of food aid projects. The basic guidance is that the ration chosen should be appropriate for helping the project reach its objectives. Among the information normally considered in determining the appropriate ration size are the nutritional requirements of the intended beneficiaries and their normal consumption levels without food aid.

We reviewed the ration sizes used by the cooperating sponsors on their food-for-work and nutrition programs directed at the family level and noted significant differences as shown below[4]:

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4 The ration sizes used by the different cooperating sponsors are shown in terms of their nutritional energy value to make them directly comparable. The ration sizes in terms of weight were as follows:

Food-for-work, per day of work:
- CARE - 1.85 kgs.
- Caritas-regular - 4.0 kgs.
- Caritas-jungle - 4.9 kgs.
- ADRA - 5.5 kgs

Nutrition program aimed at family, monthly ration:
- Caritas-regular - 11.5 kgs.
- Caritas-jungle - 32.3 kgs.
- PRISMA-PANFAR - 12.5 kgs.
- PRISMA-Kusiayllu - 25 kgs.

Food-for-work ration, per day of work:

CARE - 7,095 kcals[5]

Caritas-regular - 15,570 kcals

Caritas-jungle - 12,709 kcals

ADRA - 22,331 kcals

Nutrition program aimed at the family, monthly ration:

Caritas Mother-Child program, regular - 43,140 kcals

Caritas Mother-Child program, jungle - 83,880 kcals

PRISMA High Risk Family (PANFAR) program - 55,260 kcals

PRISMA Happy Community (Kusiayllu) program - 110,520 kcals

ADRA Infant Nutrition program- 105,211 kcals

The reasons for the differences were as follows:

Food-for-work programs

For food-for-work programs, the basic difference was the number of days each cooperating sponsor expected beneficiaries to work to earn enough rations to satisfy their nutritional needs. CARE based its ration size on what it found was sufficient to get people to work. Each person who worked got a ration commensurate with the work done that day. If more than one family member worked, each member received a separate ration. The ration for each worker met most of the nutritional requirements for a whole family, but only for that day. Beneficiaries could earn more rations by doing more work i.e. getting more done.

ADRA and Caritas on the other hand provided rations for their food-for-work projects as if they were nutrition projects. That is, the ration needed

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ADRA - 25 kgs.

5 Kcals stands for kilocalories (or in laymen's terms calories). It is used to express the energy value of food.

for adequate nutrition of a family for a month was the main premise for the ration size. Thereafter, there was the expectation that the head of household of a family would work a certain number of days per month to earn the ration. However, there was confusion within the cooperating sponsors about just how many days and how long each day people were expected to work to earn the ration. Also, rations were not given based on actual work progress. The food-for-work figures above for ADRA and Caritas are adjusted to a daily basis based upon the number of days beneficiaries worked[6].

We considered CARE's program philosophy to be superior because it was tied to getting the work done and a greater amount of work was required vis-a-vis the other cooperating sponsors for a given level of rations. Although CARE was more demanding, its beneficiaries could still earn sufficient rations to make up their nutrition shortfalls by having more than one member of a family work or by working more days.

Nutrition programs

The reasons for the differences in the nutrition programs were related to program design and differing assumptions on beneficiaries' other food sources. ADRA, Caritas and PRISMA considered the beneficiaries' regular consumption levels without food aid in determining their ration sizes, CARE did not. Although all the cooperating sponsors dealt with the same general population of beneficiaries, they used different sources of information and therefore had differing assumptions on the beneficiaries' regular consumption levels. We believe the cooperating sponsors should use the same information if they are dealing with the same beneficiary populations.

An even more significant reason for the larger ration sizes used in some cooperating sponsors' nutrition programs was program design. For instance, except for ADRA, all the cooperating sponsors' nutrition programs shown above assumed the beneficiaries to be a mother and two children under five years of age. ADRA's program assumed a mother, father, and

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6 Information on days actually being worked under the Caritas and ADRA programs was based on limited field review, reviewing records in the field where they existed. Where such records did not exist the review was based on interviews, and the reliability of the information is correspondingly reduced. For example, in Caritas' jungle program, for the single location visited, the local technical supervisor stated that the people worked 11 days during the month preceding our visit. This contrasts to the four days per month we were told people worked under Caritas' regular program, which covers the rest of the country. It is as a result of the presumed greater number of days worked that the Caritas-jungle food-for-work monthly ration is shown to be relatively efficient on a per-workday basis.

three children, which led to a significantly higher base nutritional requirement compared to the others. And on top of that, ADRA's ration was increased about 24 percent to provide for various allowances intended to assure that the target children would recuperate their nutritional status quickly. Despite a ration size designed to ensure the target children recuperate quickly, the entire family remains in the program for 20 months. ADRA's program design appeared very inefficient compared to the others (See the comparison at pages 13 and 14).

PRISMA's Kusiayllu program similarly has a large ration size compared to most of the other nutrition programs. The program, which is directed only at the most severely malnourished children, originally used the smaller ration size of PRISMA's PANFAR program, but the children's rate of recovery was less than PANFAR's. Therefore, PRISMA doubled the ration. The Kusiayllu program now has the highest graduation rate of any of the cooperating sponsors' nutrition programs (53 percent per six month period compared to 40 percent for the PANFAR program).

Caritas' jungle program had the third largest ration in terms of energy value. The reason was that the ration calculation assumed a low level of consumption from the beneficiaries' normal food sources. Also, the nutritional requirement used in the calculation of the ration was for three adults rather than a mother and two children. Caritas did this for ease of program administration, that is, it used a standard ration size per person and provided that amount regardless of whether the person was a child or an adult. Using a ration sufficient for two adults rather than three would make the Caritas jungle ration more comparable to the rations used in Caritas' regular program.

The use of more resources than necessary to accomplish a given level of results is inefficient. Requiring the cooperating sponsors to be competitive from an efficiency standpoint would free up resources that could be applied to achieve greater program impact. For instance, there does not appear to be any significant difference between the beneficiaries served by three of the above nutrition programs—ADRA, Caritas, and the PRISMA-PANFAR program. Of these programs, PRISMA's PANFAR program has demonstrated the best results in terms of graduation rates. Therefore, the ration size used by the PANFAR program should be sufficient for any of those programs to achieve the same level of results. If Caritas' jungle program and ADRA's program were to use rations sizes with an energy equivalence to the PANFAR ration, then Caritas jungle program could expand by 52 percent and ADRA by 90 percent.

Similarly, for food-for-work projects, if Caritas and ADRA adopted the energy equivalent of CARE's ration size, then Caritas could expand its regular program by about 120 percent and its jungle program by about 80 percent. ADRA could expand its program by 215 percent.

Using the more efficient ration sizes mentioned above for the Caritas and ADRA programs in fiscal year 1996 would have resulted in savings of $6.2 million, which could be used to serve more people.

Management Comments and Our Evaluation

The Mission found Recommendation No. 5, parts 5.1 and 5.3 to be acceptable but stated that part 5.2, regarding requiring the cooperating sponsors to use comparable ration sizes, should be eliminated.

Regarding part 5.2, the Mission found as too simplistic the audit logic that if one cooperating sponsor could achieve an acceptable level of results with a given ration size, then the others could also. It also noted that the "jury is out" on which ration size is the most efficient because "efficiency" is ill-defined. For instance, it noted CARE's food-for-work ration size is very "efficient" in getting the work done at a competitive rate, but in geographic areas with caloric deficiencies there might be justification for hybrid food-for-work/direct feeding program projects. Further, it stated that the "efficiency" and "effectiveness" of ration sizes can only be evaluated after measurements of impact and results are available. However, the Mission stated that, among other certifications, the cooperating sponsors now must certify that their rations are as standardized as possible.

While we agree that the "jury is still out" regarding the most efficient ration size until all the various situations are studied (as recommended in part 5.1), there appear to be clear opportunities for greater efficiencies. If one cooperating sponsor is able to accomplish a superior result with a given ration size, the challenge is for the others to match that performance. This transformation would probably have to take place gradually because the different cooperating sponsors have grown accustomed to a certain level of rations.

CARE's ration size and approach to food-for-work projects clearly appears to be the most efficient. The example offered by the Mission is not necessarily different from the situation faced by CARE. In a food deficit area CARE's beneficiaries could do more work to earn more food.

The Mission needs to exert continuing pressure to bring up the efficiency level of less efficient cooperating sponsors. Part 5.2 of Recommendation No. 5 is retained.

Some Cooperating Sponsors Should Develop More Ambitious Work Standards and Give Rations Based on Work Actually Accomplished

USAID policy states that the Agency's goal and that of the cooperating sponsors must be the effective and efficient use of food aid resources. Of the three cooperating sponsors that had food-for-work projects, only two used formal written work standards to estimate the number of days work involved in a project, and only one gave out rations based on the work actually accomplished. Also, one sponsor's work standards were significantly more ambitious than the other. These differences occurred because no comparative analysis had been done of the work standards used by the cooperating sponsors and other organizations. Also, the sponsors did not have the same efficiency approach i.e. giving out rations in direct proportion to the amount of work actually accomplished. Using the most ambitious work standards, giving rations in direct proportion to work done, and limiting beneficiaries to the minimum needed would increase program efficiency and thereby permit increasing results for a given level of commodities.

Recommendation No. 6: We recommend that USAID/Peru:

6.1 coordinate with the three cooperating sponsors doing food-for-work projects to analyze and compare their existing work standards and methodologies used in establishing their work standards and additionally review the work standards used by the World Food Program and any other organizations the Mission may be aware of that use such standards in their food-for-work projects;

6.2 once the different work standards and methodologies have been analyzed, direct the cooperating sponsors to establish or revise their food-for-work standards to raise the expected level of the work to be accomplished per workday along the lines of the highest efficiency levels noted for the organizations analyzed. The work standards should be detailed to the subtask level;

6.3 direct ADRA to discontinue the practice of providing rations for work activities that the beneficiaries would

otherwise be doing in the absence of ADRA's food-for-work projects;

6.4 direct ADRA and Caritas to give rations for food-for-work projects based on the amount earned i.e. based on the work standards and measurement of the amount of work actually accomplished. The cooperating sponsors could follow the system used by CARE in this respect; and

6.5 direct its cooperating sponsors that have food-for-work projects to provide the necessary training to their field level individuals responsible for properly applying the work standards to determine the amount of food earned.

The Food Aid and Food Security Policy Paper states that USAID's goal and that of the cooperating sponsors must be the effective and efficient use of food aid resources.

ADRA, Caritas and CARE had food-for-work projects covering a range of activities such as irrigation canals, agricultural production, soil conservation, reforestation and road work. Only CARE and Caritas used formal written work standards to estimate the number of days of work involved in a project, and only CARE gave out rations based on the work actually accomplished. Also, CARE's work standards were significantly more ambitious than those used by Caritas. ADRA did not have written work standards or use such standards in determining beneficiary levels. Although the World Food Program was not included in the audit, for comparison purposes we also reviewed the food-for-work standards used by that organization.[7] Details follow:

<u>CARE</u>

CARE's system was the best in that the amount of food given to the beneficiaries was based on work done. For example, CARE established a work standard for slow-formation terracing, a soil conservation activity, of .04 workdays per square meter. Therefore, with CARE's food-for-work ration of 1.85 kilograms per workday, if farmers completed 200 square meters of slow-formation terraces, they would earn a total of 14.8 kilograms of food (200 square meters x .04 workdays per square meter x 1.85 kilograms per workday).

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7 The food-for-work work standards used by the World Food Program were very good in terms of defining work expectations by project subtasks, and thus, the Mission and cooperating sponsors could benefit from reviewing them.

In comparing some of the work standards used by CARE, Caritas and the World Food Program, CARE's standards were the most ambitious (see Table at Appendix V). However, CARE's standards were not always being adhered to in the field because some of the CARE and Ministry of Agriculture regional individuals responsible for monitoring the amount of work accomplished and calculating the amount of food earned did not fully understand this system. In addition, CARE did not have standards for the various subtasks for certain types of projects (e.g. road work).

Caritas

Caritas had work standards which it used for estimating the number of workdays involved in a project. Nevertheless, having used the standards to set the number of workers on a project, it gave out food based on the programmed number of workers rather than the actual work accomplished.

Also, Caritas headquarters did not review the reasonableness of the regional (diocese) offices' estimates of the number of workers needed for projects and for similar projects in different regions there were wide variations in the estimated number of workers needed. Further, the headquarters was unable to explain the assumptions used in applying the work standards but stated that the technical personnel in the field knew what the assumptions were. However, the field offices in some cases improperly applied or did not use the standards.

Although Caritas had many more types of food-for-work projects than CARE, we did a comparison of the work standards for similar projects and noted that Caritas' standards were much less ambitious than CARE's (Appendix V). For example, while CARE used a standard of .04 workdays to perform a square meter of slow-formation terracing, Caritas used a standard of .0833 workdays, more than twice the time for apparently the same work.

ADRA

ADRA did not have written work standards. It did not even limit beneficiary levels to the minimum needed to accomplish the work activity.

For example, one food-for-work project consisted of 184 community members that did not have jobs outside their community. The project concept was to increase agricultural production by demonstrating to the community on small demonstration plots how much production increase they could obtain on their own plots by following proper agriculture techniques and using improved seeds, fertilizer and pesticides. However, 184 workers were not needed to tend to the demonstration plots. Therefore, the workers received rations for doing work, such as maintaining irrigation ditches and community roads, that they would have done anyway in the absence of the project. And even in those activities no work standards were applied. Rather, ADRA allowed its individual technical supervisors in the field to judge what was a reasonable amount of work per day for each beneficiary.

ADRA should establish food-for-work beneficiary levels at the minimum numbers needed to accomplish the activities that directly lead to the expected productivity increases from the project and should not give food for work that the community is doing anyway in the absence of the project.

The above differences in the cooperating sponsors' food-for-work projects occurred because no comparative analysis had been done of the work standards used by the cooperating sponsors or by other organizations. Also, Caritas and ADRA did not have the same efficiency approach as CARE, i.e. giving out rations in direct proportion to the amount of work actually accomplished.

Using the most ambitious work standards, giving rations in direct proportion to work done, and limiting beneficiaries to the minimum needed would increase program efficiency and thereby permit increasing results for a given level of commodities. For instance, if the worker productivity expectations for ADRA and Caritas are half those of CARE, then if they raised their standards and expectations to CARE's level, they could double their food-for-work activities with the same level of commodities. ADRA and Caritas' food-for-work budgets for fiscal year 1996 were $8.8 million.

Also, CARE's system of supplying rations based on work actually accomplished would overcome various problems noted for the other cooperating sponsors. These problems include overestimating the number of beneficiaries needed to do a project and keeping a set number of beneficiaries within a project for the length of the project even though the work requirements were known to vary considerably over time.

Management Comments and Our Evaluation

The Mission stated it found Recommendation No. 6 to be acceptable, thus indicating that it agrees to take the recommended actions.

In-Country Transportation Costs Can Be Reduced

USAID aspires to use commercially reasonable practices in purchasing goods and services and promotes the effective and efficient use of food aid resources. The cooperating sponsors did not share their cost data for contracted transportation from the port of entry to their regional warehouses. Also, some cooperating sponsors required beneficiaries to pay for the transportation costs from their regional warehouses to the beneficiaries' communities while others did not. The Mission did not monitor transportation services closely. Consequently, opportunities to negotiate lower rates and pass costs on to other parties were lost.

Recommendation No. 7: We recommend that USAID/Peru:

7.1 establish a joint cooperating sponsor committee, with Mission representation, to share information on the rates the cooperating sponsors have been able to negotiate with their transport agents to move Title II commodities, and to coordinate efforts to negotiate for the best rates; and

7.2 require Caritas to establish and implement a transparent system for procuring transport services with Title II monetization funds. This system should include procedures for: a competitive bidding system based on price quotes from a reasonable number of firms; appropriate consideration and weight given to qualifications and experience of firms; an independent, committee-based proposal review process; and a contract file system which documents selection decisions.

7.3 require all the cooperating sponsors to adopt a policy requiring beneficiaries or the host government to pay for the costs of transportation from the regional warehouse (or temporary subregional storage location) to the beneficiary communities.

The Food Aid and Food Security Policy Paper states that USAID's goal—and that of the cooperating sponsors—must be the effective and efficient use of food aid resources. In addition, USAID Regulation 11, requires cooperating sponsors to use commercially reasonable practices in purchasing goods and services with monetized proceeds or program income.

Each cooperating sponsor used Title II monetization funds to move food commodities from the port to its central and regional warehouses. While each followed a competitive bidding process to contract for such transportation, they did not share their cost data, which varied significantly (see Appendix VI).

One cooperating sponsor, Caritas, did not have bids on file for all the trucking companies it used; and in some cases, for those companies that it did have bids on file, it paid more than the bid price. In addition, Caritas usually received cash "donations" from the trucking companies it does business with which tied to the individual shipments of the commodities. Caritas believed the "donations" were completely legitimate, independent of the Title II program, and available for its own purposes. These "donations" could alternatively be viewed as price reductions which should be credited to the Title II monetization account.

Regarding secondary transportation, that is, transport of the commodities from a regional warehouse (or subregional locations in the case of CARE) to the beneficiary communities, different practices were followed by the cooperating sponsors. CARE required the beneficiaries to pay for these costs. ADRA and Caritas sometimes required the beneficiaries to pay these costs. For PRISMA, these costs were usually paid by the Government of Peru's Ministry of Health or with monetization proceeds.

The above situations existed because the Mission did not monitor the cooperating sponsors' transportation practices and costs closely. A comparative analysis had not been done of the various cooperating sponsors' in-country transportation costs and their policies regarding who should pay for the costs of transportation from the regional warehouses to the beneficiaries.

If all the cooperating sponsors collaborated to obtain the lowest rates quoted to any cooperating sponsor, there would be significant cost savings. For instance, price differences for the same routes for different cooperating sponsors ranged from 4 percent to as high as 165 percent. A 10 percent savings from the budgeted transportation costs of $3.3 million for the four cooperating sponsors for fiscal year 1996 would amount to $330,000.

Additionally, if the cooperating sponsors establish a joint committee, with Mission representation, to share information and negotiate for the best rates, then the process would be transparent. This would likely resolve what we consider to be an appearance problem regarding the "donations" received by Caritas.

Having beneficiaries or Government of Peru partners pay for the costs of secondary transportation is another potential way to conserve Title II monetization funds. Since CARE and, in many cases, ADRA, Caritas and PRISMA had either the beneficiaries or the Government of Peru pay for such costs, it appears feasible to establish this practice as the policy for all the cooperating sponsors.

Management Comments and Our Evaluation

The Mission accepted Recommendation No. 7, part 7.1 and requested that we include a further recommendation to ensure that the contracting procedures used by Caritas del Peru are transparent and competitive. The Mission stated that part 7.2 of the recommendation (now part 7.3) regarding host government and beneficiary payments of secondary transportation costs, should be eliminated.

We have added a new part 7.2 to the recommendation as requested by the Mission.

Regarding the part of the recommendation to require cooperating sponsors to adopt a policy that beneficiaries or the Government of Peru (GOP) pay for secondary transportation costs. The Mission stated that the GOP does in fact support transport in some cases. However, requiring additional outlays from the GOP would be "impolitic". USAID/Peru also expressed the concern that this could impose a constraint on sponsor programs if the GOP does not or cannot cover transportation costs. Furthermore, the Mission believes the recommendation that beneficiaries cover the transport costs does not consider the beneficiaries' ability to pay.

We agree with the Mission that there would be situations where it would not be practical or feasible to require beneficiaries or the host government to pay for secondary transport costs. However, the cooperating sponsors could adopt policies to, as a general rule, have the beneficiaries or host government pay, but allow exceptions in specific situations where it would not be practical or feasible. We therefore consider part 7.3 of the recommendation to be reasonable and practical and it is retained.

Commodity Requests Did Not Reconcile
with Program Planning Documents

USAID Regulation 11 requires cooperating sponsors to submit an annual commodity request estimating the quantities required for each program. In reviewing the cooperating sponsors' approved commodity requests for fiscal year 1996, we found that (1) the requested levels did not agree with the amounts indicated as needed in their program documents, and (2) the program documents in some cases did not contain the information needed to validate the levels requested. The above problems occurred because the Mission did not require the cooperating sponsors to support their commodity requests with a reconciliation to their program documents. As a result, USAID approved 2,386 metric tons of food, with an estimated cost of $761,000, more than the cooperating sponsors' program requirements justified.

Recommendation No. 8: We recommend that USAID/Peru require each of its cooperating sponsors to:

8.1 support each annual commodity request submitted to the Mission with a reconciliation to its program documents. These reconciliations should show the amounts for each subprogram and include separate line items for the promoters of each subprogram; and

8.2 include in its program documents an annual breakout of number of beneficiaries and promoters for each subprogram.

USAID Regulation 11 requires cooperating sponsors to submit an annual commodity request estimating the quantities required for each program. The commodity request, when approved by USAID, sets the amount of commodities authorized for a cooperating sponsor's country program.

In reviewing the cooperating sponsors' approved commodity request for fiscal year 1996, we found that (1) the levels requested exceeded the levels indicated as needed in the cooperating sponsors' program proposals and annual workplans by a total of 104,611 beneficiaries and 2,386 metric tons (see Appendix VII), and (2) the commodity requests and program documents were difficult to reconcile because of differences in format and the presentation of counts between the two and lack of information in the program documents needed to do such reconciliations. The following is illustrative:

CARE - Since CARE's program proposal did not include breakouts by fiscal year of its planned number of beneficiaries under each program, no reconciliation between the program proposal and the commodity request could be done.

As an alternative procedure, we compared the commodity request with the annual workplan that CARE provided to the Mission and noted certain differences. While the June 1995 version of the commodity request (which was ultimately approved) agreed in total with the annual workplan, the number of beneficiaries included in each program was significantly different. There was no difference in total tonnage required because the increases in one program were traded off against decreases in the other program.

ADRA - The approved commodity request included 12,316 metric tons of food commodities for the infant nutrition and agriculture income generation programs. The amount required in the program proposal for these programs was only 11,870 metric tons. The difference of 446 metric tons equates to 3.8 percent. ADRA stated that the Mission instructed it to include a provision for emergency beneficiaries.

Caritas - The approved commodity request overstated the number of food-for-work beneficiaries as indicated in the program proposal by about 50,000. As a result of this overstatement, USAID approved 1,945 metric tons more of food commodities than were required to execute the program described in the proposal. Caritas did not know when the error occurred but believed the commodity request became out of synch with the program proposal sometime during the process of modifying the proposal prior to its submission to Washington.

PRISMA - The program proposal showed 75,000 families in the High Risk Family (PANFAR) program and 3,000 in the Happy Community (Kusiayllu) program, whereas the approved commodity request showed 73,166 for High Risk Family program (2.4 percent less) and 3,900 for the Happy Community program (30 percent more).

The above problems occurred because the Mission did not require the cooperating sponsors to support their annual commodity requests with a reconciliation to their program documents.

As a result, USAID approved 2,386 metric tons of food, with an estimated cost of $761,000, more than the cooperating sponsors' program requirements justified. Excess resources potentially would be more at risk of being misappropriated since they are not for any particular project and there would be no beneficiaries expecting to receive them. Also, missions should not request more commodities than needed due to worldwide limitations in the amount of Title II resources.

Management Comments and Our Evaluation

The Mission stated that it found Recommendation No. 8 to be acceptable, thus indicating that it agrees to take the recommended actions.

Value-Added Tax Exemption

One of USAID's goals is the effective and efficient use of food aid resources. The Government of Peru (GOP) has a value-added tax of 18 percent. In prior years, one of the four cooperating sponsors received an exemption from this tax; the other three did not. Because of recent changes in certain Peruvian laws, the opportunity now exists for all the cooperating sponsors to be exempt from the tax. However, the Mission did not closely monitor the process to see if the cooperating sponsors submitted the required information to the GOP. The savings from a value-added tax refund would be about $2.1 million for fiscal year 1996.

Recommendation No. 9: We recommend that USAID/Peru:

9.1 ensure that all four cooperating sponsors have submitted the necessary documentation to the appropriate ministry of the Government of Peru to obtain a refund of value-added taxes. Specifically, verify that cooperating sponsors:

(a) register themselves with the Ministry of the Presidency's Executive Secretariat for International Technical Cooperation, and

(b) register their new Title II programs with and submit their fiscal year 1996 budgets to either the Ministry of the Presidency's Executive Secretariat for International Technical Cooperation (for ADRA, Caritas and PRISMA) or the Ministry of Foreign Affairs (for CARE); and

9.2 require the cooperating sponsors to account for program expenses net of the value-added tax by recording the tax paid as a receivable from the Government of Peru.

The Food Aid and Food Security Policy Paper states that USAID's goal—and that of the cooperating sponsors—must be the effective and efficient use of food aid resources.

The 18 percent value-added tax is a general sales tax of the Government of Peru (GOP). All providers of services (e.g. hotels, transport agents, etc.) are required to collect this tax and remit the collections to the GOP. If an exemption from the tax is granted, the procedure would be to pay the tax at the time of purchase, with the GOP refunding the amount paid annually. In prior years, CARE received an exemption from the tax because CARE is an "offshore" or foreign PVO. The other three cooperating sponsors could not receive an exemption from the tax because they were indigenous PVOs[8].

In 1993 and 1994, the GOP enacted three pieces of legislation affecting the value-added tax for indigenous cooperating sponsors. As a result, starting with their fiscal year 1996 programs it will be possible for all four cooperating sponsors to receive value-added tax exemptions/refunds for their current Title II program expenses providing appropriate application is made.

Based on discussions with Mission Controller's Office personnel and review of the laws, there are three requirements: (1) each sponsor must register with Peru's Ministry of the Presidency, (2) each sponsor must register its current Title II program, in the present case, its fiscal year 1996-2000 program as described in its program proposal, with either the Ministry of the Presidency, for the cooperating sponsors registered as indigenous PVOs, or with the Ministry of Foreign Affairs, for the cooperating sponsors registered as foreign PVOs, and (3) each cooperating sponsor must submit its current year budget to either the Ministry of the Presidency, if it is an indigenous PVO, or to the Ministry of Foreign Affairs, if it is a foreign PVO.

It is our understanding that at least two of the four cooperating sponsors had applied for exemption from the value-added tax as of the end of February 1996. Although the Mission has generally encouraged its grantees to apply for a tax exemption, the Mission did not have information on whether all four had applied.

Considering the potential refund amounts, the Mission should ensure that all the cooperating sponsors have made appropriate application for

[8] While ADRA is a U.S. PVO, its affiliate in Peru is registered as an indigenous PVO under the name ADRA/OFASA. Therefore, in the past ADRA/OFASA was unable to apply for an exemption from value-added taxes under the procedures followed by CARE.

exemption from this tax and have submitted the necessary documentation to support their eligibility. Furthermore, it should instruct the cooperating sponsors on a simple and consistent method of recording the potential recovery of taxes paid. The Controller's Office suggested that purchases be recorded with a debit to the appropriate expense and to a receivable from the GOP for the amount of the tax. The offsetting credit would be to accounts payable or cash.

The savings from refunds of the value-added tax would be substantial. The fiscal year 1996 commodities approved for monetization for the four cooperating sponsors is about $19.3 million. If one subtracts the $7.5 million budgeted for salaries, the difference of approximately $11.8 million would be subject to the tax. Therefore, the approximate value of the refund for the fiscal year 1996 program would be about $2.1 million.

Management Comments and Our Evaluation

The Mission stated that it found Recommendation No. 9 to be acceptable, thus indicating that it agrees to take the recommended actions.

Has USAID/Peru progressed toward achieving the results of food aid activities as intended in Mission and cooperating sponsor planning documents?

While at the time of our audit it was too early to measure results for the recently approved fiscal year 1996 food aid program, which constituted a major reorientation from the earlier program, the Mission was progressing in terms of assuring the execution of the cooperating sponsors' new programs and its strategic framework was designed to reflect the expected results from those programs.

However, the framework the Mission was following needed certain improvements. Also, the cooperating sponsors needed to improve their management information systems to accurately report progress and impact. Finally, although the Mission expects to phase out food aid activities in Peru over the next few years, it had not explicitly defined and quantified the parameters it considered would need to be reached before ending food aid.

Improvements Needed in Food Aid Framework

USAID directives require missions to develop strategic plans that will measure performance for all programs, including food aid programs.

Moreover, Agency policy is to focus Title II programs on improving household nutrition and increasing agricultural productivity. Although the Mission was following a proposed strategic framework for food aid directed to the Agency's priority focus areas, certain improvements were needed to make the framework more useful in measuring and reporting results. Specifically: (1) the cooperating sponsor individuals responsible for collecting and reporting information on their food aid programs were not aware of the framework's indicators or their definitions, (2) the plausibility of accomplishing the targets for strategic level indicators was not supported by a specific documented analysis, (3) the intermediate result indicators were more process- than impact-oriented, (4) the intermediate result baselines were not well supported, and (5) the targets did not reconcile to the cooperating sponsors' approved program documents. These problems were the result of the difficulty faced by the Mission of simultaneously implementing both the Agency's new expectations on managing for results and the new food aid policy. Unless USAID/Peru takes action to ensure that the problem areas noted above do not carry over into the framework ultimately adopted by the Mission, it will be unable to accurately assess the progress and impact of its food aid programs.

<u>Recommendation No. 10</u>: We recommend that USAID/Peru:

10.1 decide on how food aid will be integrated into the Mission's strategic framework. As part of this process, the Mission should meet with the cooperating sponsors and attempt to reach consensus on the indicators, targets, and methods of data collection;

10.2 include in its strategic framework intermediate results and performance indicators that will explicitly measure progress and impact of its food aid programs on household nutrition and agricultural productivity;

10.3 document its analysis of the expected effects of its food aid program at the strategic objective level, and make adjustments to the strategic framework as warranted; and

10.4 with the assistance of the cooperating sponsors, develop new baseline information consistent with the indicator definitions, and develop new annual targets consistent with the cooperating sponsors' approved programs.

Based on such legislation as the Government Performance and Results Act of 1993, the Agency issued guidance to missions on developing strategic plans that will measure performance for all programs, including food aid programs. Additionally, the Agency's Food Aid and Food Security Policy Paper prioritizes the focus of Title II programs on improving household nutrition, especially in children and mothers, and on alleviating the causes of hunger, especially by increasing agricultural productivity.

In April 1995, as part of its Fiscal Year 1996-1997 Action Plan, USAID/Peru proposed a separate strategic objective for food aid to improve the food security of Peru's extremely poor. However, the proposal was not approved by Washington. The Mission explained that there was no disagreement with the details of what it was proposing below the strategic objective level, but that in the Washington review process some considered that achieving food security was beyond the Mission's manageable interest. As a result, the Mission was directed to consider the review comments and Agency policy in deciding whether to present a separate food security strategic objective in the following year.

At the start of the audit, the Mission indicated that it was considering proposing a strategic objective for food security to Washington again. Near the end of our review, however, the Mission stated it had decided to include food aid activities under a reformulated strategic objective for economic growth which it had begun working on and would be presenting to Washington.

We considered that the framework for the proposed strategic objective for food security which was presented in the Mission's Fiscal Year 1996-1997 Action Plan was an improvement over the framework used previously. Nevertheless, there were a number of areas where the proposed strategic framework needed to be improved to make it more useful in measuring and reporting results.

First, the personnel at the cooperating sponsor organizations that were responsible for implementing the managing for results systems were not aware of the specifics of the Mission's framework. These individuals had not seen the proposed strategic framework, including the various intermediate result indicators and definitions. Such a situation can lead to confusion as well as inconsistent reporting of results across the cooperating sponsors.

Second, there was no documented analysis to support the plausibility of accomplishing the targets for strategic objective level indicators based on achieving the intermediate result targets and other assumptions. For instance, one strategic objective indicator was daily per capita food availability for the whole country. However, the increases expected were much greater than could be accounted for simply on the amount of food aid delivered and there was no analysis to support the feasibility of achieving the strategic level target.

Third, the intermediate result indicators were more process- than impact-oriented. That is, the indicators measured such things as the number of extremely poor households adopting improved technology and hectarage under intensified management rather than changes in agricultural productivity and production.

Fourth, the intermediate result baselines in the Mission's strategic framework were not well supported. The baselines were largely taken from the cooperating sponsors' fiscal year 1994 annual reports. These reports did not include consistent statistics across all cooperating sponsors nor was their information necessarily directly comparable to the fiscal year 1996 programs they were being used as a baseline for.

Fifth, the intermediate results targets in most cases did not reconcile to the cooperating sponsors' approved program documents. For several fiscal year 1996 targets the cooperating sponsor program documents projected much better results, e.g. the target for number of high risk children participating in Title II nutritional programs was 60,000 while the cooperating sponsors' program documents reflected on the order of 250,000.

(See Appendix VIII for a detailed analysis of the last two problem areas.)

We attribute the above problems to the difficulty faced by Mission food aid staff of simultaneously implementing both the Agency's new expectations on managing for results and USAID's new Food Aid and Food Security Policy Paper. Also, the Mission needed to spend more time with the cooperating sponsors to fully bring them into the process of formulating the Mission's plan.

Even though the Mission was considering a different integration of food aid into its strategic framework, Mission officials stated that the cooperating sponsors' food aid programs will continue as they have before, and most of the indicators, targets and timeframes will remain the same. Therefore, the observations noted above remain valid and need to be addressed by the Mission.

In summary, unless USAID/Peru corrects the problem areas noted above in the final framework, the Mission will be unable to accurately assess the progress and impact of its food aid programs.

Management Comments and Our Evaluation

The Mission stated that it found Recommendation No. 10 to be acceptable, thus indicating that it agrees to take the recommended actions.

The Cooperating Sponsors' Management Information Systems Need Improvement

USAID Regulation 11 requires cooperating sponsors to maintain information systems for collecting data on the progress and impact of their programs and to periodically report this data to USAID. The cooperating sponsors' management information systems had weaknesses in the areas of support, collection, review and reporting of information on program progress and impact. These weaknesses occurred because the managing for results systems of the cooperating sponsors were still evolving and controls over the accuracy and completeness of information were weak. More effort was needed to resolve the noted problem areas to ensure complete and reliable reporting on the results of food aid programs.

Recommendation No. 11: We recommend that USAID/Peru:

11.1 finalize its work with the cooperating sponsors to implement management information systems that will include targets for all the intermediate result indicators to be tracked by the Mission, and will report reliable information on the progress toward the targets;

11.2 obtain evidence from the cooperating sponsors that their programs' numerical goals for agricultural productivity improvements and reduction in malnutrition are analytically supportable from the detail of the projects they intend to support, and, further, that the expected results of the various types of projects are supported with research or other information showing those expectations are reasonable;

11.3 require the cooperating sponsors to provide plans of action informing the Mission when they intend to complete the collection of baseline information for their projects and indicating whether such baseline information will be for each project or some broader basis, e.g. for a microbasin;

11.4 ensure that the headquarters of each cooperating sponsor establishes procedures to check the reliability and

timeliness of the data reported by their regional units and host country counterparts;

11.5 require each cooperating sponsor to develop operating guidelines to ensure that their regional offices maintain the detailed documentation supporting individual food aid projects; and

11.6 based on a risk assessment and resource constraints, develop a system that the Mission will follow for periodically verifying the results information reported by the cooperating sponsors.

USAID Regulation 11 requires cooperating sponsors to maintain information systems for collecting data on the progress and impact of their programs and to periodically report this data to USAID. In addition, the Mission's strategic plan stated the Mission would obtain data on the achievement of its intermediate result targets from the cooperating sponsors.

The cooperating sponsors' management information systems had weaknesses in the areas of support, collection, review and reporting of information on program progress and impact. There were instances where information was not readily available for review, was not collected at all, or was submitted without controls to ensure its accuracy and completeness. Also, various aspects of the structure for managing for results were not in place or not well thought out. Some examples follow:

(1) Several cooperating sponsors could not explain their basis for projecting that the overall agricultural productivity goals in their program proposals would be reached. Cooperating sponsors did not have standards on impacts expected from the various types of projects.

(2) The cooperating sponsors did not have baseline data for their food-for-work projects.

(3) Progress reported under food-for-work projects was often unreliable for some cooperating sponsors, which makes reported progress towards program impacts unreliable. For example, reported progress on projects for a regional office at one cooperating sponsor was based on the programmed level of work rather than the actual, and it did not correlate consistently with the indicated number of beneficiaries. Headquarters personnel mentioned that in their

reporting of progress to USAID/Peru they compiled information received from their regional offices without verifying its reasonableness or accuracy.

(4) One cooperating sponsor's fiscal year 1995 progress report to the Mission contained very little or no data for 9 of the 29 regions having nutrition programs. This situation occurred because the host country entities involved in the program did not report the information and the cooperating sponsor did not check the reliability of the information reported. Therefore, data such as the graduation rate, percentage of families receiving training, and the percentage of families receiving all rations was not available for these regions.

(5) One cooperating sponsor did not maintain complete records of project activities in its regional offices. Most of the detailed records were held by field supervisors and therefore such records were not readily available for review.

We attributed many of the above problems to the fact that cooperating sponsors until recently have not been challenged to document program impact. Therefore, their reporting systems are still weak in this area, although they are strengthening their systems to meet the demands.

Other more specific reasons were that the Mission had been working with the cooperating sponsors to implement a computerized information system, called SISEPAD, which would sum up the impacts of the thousands of individual food aid projects. But, the integration and implementation of the SISEPAD was still in the preliminary stages, in some cases because the cooperating sponsors' existing information systems did not yet produce the data required to determine progress and outputs. Furthermore, officials from one cooperating sponsor mentioned that because the SISEPAD system was developed before an analysis of each cooperating sponsor's needs was done and before all cooperating sponsors agreed on the performance indicators to use, they were not sure if the system would work. These officials also mentioned that the SISEPAD system seemed too involved and complex to implement and that it might be better to make any adjustments needed to the cooperating sponsor's existing information system rather than go ahead with the implementation of the SISEPAD system.

Also, as mentioned in the previous finding in this section, cooperating sponsor personnel were not aware of which intermediate result indicators the Mission selected for its strategic framework. Therefore, they did not know what information needed to be collected and reported to the Mission.

Finally, the Mission did not verify the accuracy of the data reported by the cooperating sponsors.

Without improvements in the cooperating sponsors' management information systems, the cooperating sponsors and thus the Mission will be unable to accurately assess and report on the progress and impact of the food aid programs in Peru.

Management Comments and Our Evaluation

The Mission stated that it found Recommendation No. 11 to be acceptable, thus indicating that it agrees to take the recommended actions.

Develop Indicators, Targets and Timeframes for the Potential Phaseout of Food Aid Activities

USAID/Peru indicated in certain planning documents that it expects to phase out its food activities by the year 2000 or 2001. However, the Mission had not explicitly defined and quantified the parameters it considers would need to be reached to discontinue food aid. This situation happened because the Mission had been concentrating its attention on addressing the food security problems in Peru rather than developing a quantified vision of the end point which when reached should lead to the phaseout of the food aid program. Without establishing indicators, targets and timeframes for the phaseout of food activities, USAID/Peru will not have an objective measure to judge when its food aid activities should be curtailed in Peru. USAID/Peru may also miss the opportunity to take the actions necessary that would allow it to discontinue food aid activities.

Recommendation No. 12: We recommend that USAID/Peru:

12.1 coordinate with the cooperating sponsors in establishing indicators, targets and timeframes for the phaseout of food aid activities in Peru; and

12.2 incorporate these indicators, targets and timeframes in the Mission's strategic plan so that progress towards phaseout can be monitored and measured.

In USAID/Peru's Fiscal Year 1997 Budget Planning Document, dated June 1995, the Mission states that it will withdraw the bulk of its food aid at the end of fiscal year 2001 and that local partners will assume the responsibility for addressing ongoing and emergency food security concerns. In addition, in response to a Department of Agriculture (USDA)

Economic Research Service report, dated October 1995, titled "Food Aid Needs and Availabilities, Projections for 2005", the Mission stated that it expects that Peru will not need food aid after the year 2000 as its economic condition continues to improve. The USDA study used the approach of analyzing Peru's combined food production and its assumed import capability based on assumed economic growth rates.

Further, the Mission's described its general strategy of how to achieve food security in its Fiscal Year 1996-1997 Action Plan. The Action Plan stated for the strategy to be effective, it assumed that Peru's overall economic growth would absorb segments of its extremely poor populations. In this way, the targeted food aid programs would reach a strategically more important segment of the remaining disadvantaged groups.

The strategy assumed that Peru's reliance on donor food assistance would diminish if: the Government of Peru's economic policies and outward growth strategy are maintained over a 5-8 year time frame; there is success in targeting a greater level of social and economic investments to extremely poor zones; and social, economic and financial institutions develop and offer reliable support services to a larger portion of the general population. The Action Plan also set targets for the Government of Peru's social expenditures as a percentage of gross domestic product.

The Action Plan also detailed some general measures the Mission considered clearly manifest food insecurity in Peru, i.e. 18.3 percent of the population is extremely poor and there are low levels of per capita caloric availability and high incidence of chronic malnutrition.

Although the Mission envisioned the potential phaseout of food aid activities in the near future, and had adequately described its general vision of how to achieve food security, it had not explicitly defined and quantified the parameters it considered would need to be reached to discontinue food aid. In addition, the Mission did not explicitly include phaseout indicators, targets and timeframes in its strategic plan. The reason for this was that the Mission had concentrated its attention on defining the nature of the food security problem and was pursuing different tracks under multiple strategic objectives to address that problem. Since the expected success in solving the food security problem was some time off, the Mission had not yet taken the time to develop an explicit phaseout plan.

The types of improvements the Mission believed are necessary to solve the food security problem in Peru are adequately defined in its Fiscal Year 1996-1997 Action Plan, so a practical approach would be to simply specify targets and timeframes for those things. Also, in tune with the USDA methodology, targets should include measures of economic growth and the country's financial ability to import food to satisfy its food needs.

The Mission should also use planned periodic censuses of malnutrition rates of first graders nationwide. This information can be used as a proxy for child malnutrition rates in individual communities which will allow monitoring whether pockets of unaddressed needs continue to exist.

Since the above-mentioned Mission budget document indicates that the bulk of the food aid program will be discontinued around fiscal year 2001, the Mission also needs to establish interim targets which would measure the public and private sector institutions' progress and capabilities to address food security concerns.

Without establishing indicators, targets and timeframes for the phaseout of food activities, the Mission will not have an objective measure to judge when its food aid activities should be curtailed in Peru. The Mission may also miss the opportunity to take the actions necessary which would allow it to discontinue food aid activities.

Management Comments and Our Evaluation

USAID/Peru stated that Recommendation No. 12, regarding phaseout targets, indicators, and timeframes, should be eliminated. The Mission stated that this recommendation should be directed towards USAID/Washington offices responsible for the food aid programming and approvals. Specifically, USAID/Peru stated that (1) "phaseout" of food aid is not a specific objective of the Mission, nor is it mandated by USAID/Washington, or any other authority, (2) the 1996 Farm Bill prohibits USAID from denying cooperating sponsor requests for commodities either because the activity is in a country where USAID does not have a presence or where P.L. 480 assistance is not a part of USAID's development plan, and (3) the role of the Mission in food aid programming decisions is limited.

As stated in the finding, the Mission has already reflected the phaseout of food aid in its budget documents and responded to a USDA analysis that it expects food aid to Peru will not be needed beyond the next few years. If the Mission does not establish a phaseout plan, including indicators, targets and timeframes, it will not have an objective measure to judge when food aid activities should be curtailed in Peru and may not take the actions necessary to permit an orderly phaseout of food aid. Furthermore, without a plan which monitors the host country's progress and capabilities to address food security concerns, the Mission may not ensure that the necessary actions are taken to sustain the food aid activities in the event Title II food aid is discontinued in Peru.

We acknowledge that USAID/Washington offices have the final authority to program food aid. However, the Mission has the best knowledge of the food security problems for Peru so one expects that USAID/Washington would defer to the Mission's judgment on the conditions to be met so that Peru can handle its food security problems on its own. We will also consider addressing a similar finding to USAID/Washington in our audit of the Office of Food for Peace, but this does not negate the need for the recommendation to USAID/Peru.

SCOPE AND METHODOLOGY

Scope

We audited USAID/Peru's non-emergency Title II food aid programs implemented through private voluntary organizations (PVOs) and non governmental organizations in accordance with generally accepted government auditing standards. Our fieldwork was conducted from October 1995 through March 1996 and was performed at USAID/Peru and the Mission's four PVO cooperating sponsors: ADRA, CARE, Caritas and PRISMA (see page 2). For fiscal year 1996, these four cooperating sponsors were authorized to receive 89,500 metric tons of Title II food commodities valued at $51.0 million.

Our audit was limited to the operations and management of Title II program activities of the Mission and the four cooperating sponsors noted above and focused on program activities that occurred primarily in fiscal year 1996. The review of the cooperating sponsors' practices for targeting food aid to geographical areas was done on a limited judgmental sample basis. Also, we did not audit specific dollar amounts of commodities or monetized funds. The extent of our work was too limited to provide reasonable assurance that the Mission's targeting principles for food aid were being met and that no major losses were occurring.

Although there are many documents and guidelines for the management of Title II programs, we conducted our audit primarily utilizing the following three: (1) USAID Regulation 11 (May 7, 1992), (2) USAID Food Aid and Food Security Policy Paper (February 27, 1995), and (3) the program proposals of the four cooperating sponsors for fiscal years 1996-2001.

Methodology

Audit Objective No. 1

To determine if food aid was targeted to the most needy people, we performed analyses of demographic survey information gathered by independent sources. We then reviewed the cooperating sponsors' program documents and activities to evaluate their strategies, the appropriateness of intervention locations and the method of beneficiary selection. We also reviewed the Mission-sponsored Food Security Strategy for Peru and the Mission's strategic framework related to food aid.

Additionally, we reviewed the cooperating sponsors' support for their selected ration sizes, number of beneficiaries to be served, and criteria for beneficiary graduation. We also assessed what information the Mission had on the locations of the Government of Peru's and other donors' food aid projects.

Audit Objective No. 2

To determine if food aid reached the intended beneficiaries, we reviewed and tested the internal control systems of the four cooperating sponsors. To obtain an understanding of the internal controls, we reviewed operations manuals, interviewed responsible personnel, and performed limited testing. We analyzed the controls over commodities, monetized funds, and program income. In performing our review we were alert to opportunities to improve the efficiency and effectiveness of the programs.

The interviews and tests were performed at the headquarters offices of the four cooperating sponsors located in Lima, Peru as well as some of their regional offices located in other cities within Peru. We also made site visits to several of the project locations in rural parts of the country.

Audit Objective No. 3

To determine the progress toward achieving intended results, we reviewed the Mission's strategic framework for food aid and certain aspects of the cooperating sponsors' program documents and reporting systems. Specifically we reviewed baseline information, assessed the methods of data collection and tested the accuracy of reported information.

MANAGEMENT COMMENTS

USAID

MEMORANDUM

DATE: September 16, 1996

TO: Henry Barrett, Acting Director, IG/A/PA

FROM: Donald Boyd, Acting Director, USAID/Peru

SUBJECT: Audit of USAID/Peru's Management of Non-Emergency Title II Food Aid Programs

REFERENCE: Draft Audit Report dated August 8, 1996

Per your request, please find attached USAID/Peru's comments on the draft report on USAID/Peru's management of Title II food aid programs. In previous correspondence from the Mission, comments on the draft report from the four cooperating sponsor agencies were forwarded to you.

The comments contain editorial suggestions, additional background information, clarifications of Mission and cooperating sponsor actions that may have been overlooked by the auditors, and discussions of recommendations that the Mission feels need to be modified.

Of the 12 recommendations made regarding program management, the Mission suggests that several be eliminated. It makes comments, and/or suggests changes, in full or in part, to several others.

We look forward to reviewing the corrected version of the audit report.

Thank you and your staff for all the efforts devoted towards improving the management of the Title II program in Peru.

cc:
BHR/FFP, JPaz-Castillo

Clearance:
HWing, ORD id
TFallon,CONT id
JLombardo,A/D/DIR id

ATTACHMENT: USAID/PERU COMMENTS ON IG/A/PA AUDIT OF PERU TITLE II, 9/13/96

1. Recommendation Nos. 1.1, 1.2, 1.3 should be eliminated because of serious shortcomings with geographical targeting mechanisms and the preferred alternative mechanism proposed by the Mission. The audit finding that the Mission did not yet have an adequate management structure to ensure that the food aid is targeted to the most food-needy people should be eliminated.

The conclusion made in the audit that "USAID/Peru did not yet have an adequate management structure to ensure that food aid is targeted to the most needy people" largely is based on the argument that more strict geographic targeting will ensure that the "most needy" will receive food aid. The argument follows that if the Mission and its Title II cooperating sponsors were to target food aid to the communities having the highest rates of chronic malnutrition and unsatisfied basic needs, the potential for impact would be increased.

The Mission and its cooperating sponsors feel that there are serious shortcomings in this argument. Even if the strictest geographic targeting were utilized, and the most desperately poor and badly nourished communities were selected, the effectiveness in reaching the "most needy" still would depend upon mechanisms for individual beneficiary selection, or mechanisms for limiting the participation of relatively well-off beneficiaries in those communities.

Second, strict geographic targeting may not be the most cost effective way of achieving results. Given the cost and difficulty of moving food and providing services to extremely needy yet isolated communities, it might make better economic sense to work with the neediest individuals in relatively more accessible communities. For example, although rates of "extreme poverty" in Lima are estimated at a relatively low 10 percent, this needy population is estimated at several hundred thousand. The cost of reaching several hundred thousand beneficiaries in isolated communities with lower population densities obviously would be higher. With higher beneficiary costs and fewer beneficiaries in the program, the program's potential impact will be reduced.

Third, effectiveness in reaching the neediest beneficiaries may be more a function of what kinds of projects are executed, rather than the geographic selection mechanisms employed. The Title II focus on interventions related to childhood nutrition and agricultural production effectively limit the opportunity for the general population to participate in food aid programs, especially urban populations.

The management structure being implemented by the Mission in conjunction with its cooperating sponsors ensures that the most needy Peruvians participate in and benefit from Title II programs through a combination of mechanisms indicated above. The structure requires recipients to be "extremely poor", "food insecure", malnourished, or at risk of becoming malnourished. All the cooperating sponsors are adopting beneficiary selection criteria, for both nutrition and food-for-work beneficiaries, that reflect the need for better food availability, access, and utilization, consistent with Title II policies.

While geographic targeting information is available for the programming of sponsor activities, it is not viewed as an end in itself. Cooperating sponsors have the flexibility to program resources where they have technical, logistical or institutional advantages, and where a critical mass of needy beneficiaries justify a presence. By and large, the sponsors avoid operations in areas where other food aid institutions are operating and could result in unnecessary duplication. This criteria should and will be made an explicit selection criterion for Title II projects.

The Mission and its cooperating sponsors also are implementing the policy of limiting project interventions to those related to nutrition and agricultural production. A large, general canteen feeding program for urban slums and shanty towns, greatly expanded in the early 1990's when the Peruvian economy was going through a severe restructuring, is being terminated. Generalized food-for-work activities also are being terminated in lieu of those that contribute to the infrastructural base for agricultural production and marketing.

In 1996, the first year of a new multiyear program period, there is a requirement that the cooperating sponsors establish, at a minimum, baseline impact indicators for malnutrition, agricultural production, and unsatisfied basic needs. In addition, sponsors have adopted common "process" indicators for measuring the progress and coverage of sponsor activities. Baselines are established in assisted communities, so that there is an explicit link between the activities of the cooperating sponsors and the results.

In summary, the Mission and its cooperating sponsors have a management structure that ensures that food aid is targeted to the most needy people. This structure is based on beneficiary selection criteria, flexibility in selecting target zones, and compliance with Title II policies regarding the types of project interventions and monitoring for results. This structure effectively eliminates general, broad, diffuse, or otherwise non-targeted food assistance, and ensures a focsued targeting that is consistent with USAID food aid policies.

One additional point of clarification: The statement made in the last paragraph of page 9, that states "we had no basis to evaluate whether the Mission's food aid program would meet its targets if the food aid was given to beneficiaries throughout the country without a scheme to concentrate the resources in a particular region" should be reconsidered. Common sense and experience tells us that the most appropriate basis on which to evaluate whether a program reaches the most needy is not geographic criteria, but rather beneficiary criteria, as explained above. In addition, the Mission's new strategic and performance measurement plans no longer contain the indicator for malnutrition in the Sierra region of Peru. The indicator therefore can not be used as the argument for concentrating resources in the Sierra.

2. Recommendation No. 1.4 - Acceptable

3. Recommendation No. 2, regarding "graduation" criteria and timeframes should be eliminated. The Performance and Monitoring Plans for each Title II program have established indicators for monitoring and measuring Title II cooperating sponsor effectiveness in achieving results with the target population. The cooperating sponsor programs also include time limits for food aid benefits.

In the monitoring and performance plans of the Title II cooperating sponsors, as well as the plan of the Mission, "graduation" defined as nutritional recuperation of no longer appears as a "process" indicator. The flaw inherent in this indicator is that most programs can achieve this quite rapidly and directly with the sole use of food. Recuperation rates are close to 100 percent.

The new plan will use a series of more revealing indicators, commonly measured across the four cooperating sponsor programs, to monitor effectiveness of program coverage. These are:

recuperation and maintenance of normal weight for age over the latest three-month period; percentages of children with complete vaccinations by the age of one year; percentage of mothers completing the sponsor's cycle of nutrition and health training. Cooperating sponsors will cease food rations to beneficiaries when these minimum "graduation" indicators are met. Moreover, variations in the percentages between cooperating sponsors will indicate "efficiency" or the opposite, and the need to modify or improve sponsor interventions.

Regarding the subject of "graduation", it should be noted that in the years prior to the audit, no "graduation" criteria were in effect, much less discussed. In fact, there were many cases of open-ended programs, lasting several years, which may have contributed to food aid dependency. The management structure now limits participation in food aid programs to a maximum of two years, and incorporates the further limiting features of ending food rations to beneficiaries when specific criteria are met.

4. Recommendation Nos. 3.1, 3.2, and 3.4 - Acceptable.

5. Recommendation No. 3.3, regarding stopping the review of monetization expenditures, should be eliminated.

USAID/Peru disagrees with this recommendation to discontinue the full review of monetization transactions for the following reasons.

First, the size of the program and the amount of resources spent merit this relatively minor expense for independently controlling expenditures. The actual cost of $187,565 (not $264,000 as cited in the report) is relatively minor when compared to the over $20,000,000 that annually are spent under the monetization program.

Second, the independent review provides the same degree of oversight that other USAID projects receive. Under other USAID projects, the project officer is required to review the expenditures against a pre-approved budget, and provide administrative clearance. Later, voucher examiners review expenditures against the budget. In lieu of a project officer and voucher examiner for each program, a firm is hired to do this function.

Third, it further ensures USAID that Regulation 11 requirements regarding budget modifications and approvals are followed. Expenditures that exceed budget line items by 10 percent must be approved by USAID.

Fourth, it enables USAID/Peru to certify that the cooperating sponsors are accounting fully for the use of monetization proceeds.

Fifth, it does not imply much additional work for the firm if the documentation for the transactions is in order. The cost of the review can actually fall if the cooperating sponsors have their expenditure documentation in order, as they should.

Sixth, the process serves as a means to verify the documentation necessary for recuperation of the sales tax. The review process actually assists the cooperating sponsor.

6. Recommendation Nos. 4.1, 4.2, and 4.3 - Acceptable.

7. Recommendation Nos. 5.1 and 5.3 - Acceptable.

8. Recommendation No. 5.2, regarding requiring the cooperating sponsors to use comparable ration sizes, should be eliminated.

The audit report should not imply nor create misleading or quite possibly inaccurate expectations of savings resulting from the adoption of more efficient ration sizes. The implication of this statement is that millions of dollars could be cut from the program without a negative effect. This is not true, for it follows a simplistic logic. One might just as easily argue that one can save 50 percent of the resources by reducing all rations by half; when reducing the rations may reduce program participation, nutritional recuperation, and may not be advisable given the particular beneficiary conditions. This mistake is repeated in discussions on potential food-for-work savings (p. 29) and transport savings (p. 31).

"Requiring" the cooperating sponsors to adopt the same ration size is inappropriate. First of all, the jury is out on which ration size is most efficient - CARE Ninos, PRISMA Panfar, PRISMA Kusiayllu, CARE FFW, CARITAS Jungle FFW, because "efficiency" is ill-defined. CARE's FFW ration clearly is designed to offer a food wage for work, and is very "efficient" in getting the work done at a competitive rate. However, in areas where there are serious caloric deficiencies, there

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may be efficiencies and justification in providing a family ration that adequately supplements caloric intake, while productive FFW infrastructure is being constructed, rehabilitated, etc. (something of a hybrid FFW/direct feeding program). Since reductions in chronic malnutrition is the ultimate impact indicator for both FFW and direct feeding programs, there would seem to be a rationale for different ration sizes, depending on the nutritional and socio-economic status of the beneficiaries, and the type of project implemented. "Efficiency" and "effectiveness" of ration sizes can only be evaluated after measurements of impact and results are available. In conclusion, not all project costs can be standardized due to different implementational conditions.

We would agree that all assumptions, formulas, work rates, justifications for ration sizes, etc. need to be declared and followed. We also would agree that no food for work should be provided for work that would ordinarily be done in the absence of food. However, the Mission has gone even further by requiring certification from its cooperating sponsors that: a) food for work should not discourage other employment, i.e., that it should be valued sufficiently below the going wage rates in the locales; b) that it be used only temporarily, i.e. that time limits be placed on food aid benefits; and c) that rations of the cooperating sponsors be standardized as much as possible.

9. Recommendation Nos. 6.1, 6.2, 6.3, 6.4, and 6.5 - Acceptable.

10. Recommendation No. 7.1 - Acceptable.

11. Recommendation No. 7.2, regarding host government and beneficiary payments of transportation costs, should be eliminated.

Neither USAID nor the cooperating sponsors can "require" the government or the beneficiaries to assume additional transport costs for several reasons. First, the GOP does in fact support transport where the program is directly related to one of its own programs, has been adopted as a "de facto" GOP program, or there exists an explicit agreement to support transport costs. Second, requiring the GOP to make additional outlays is impolitic, especially since the Title II donation is made to the cooperating sponsors, and not the GOP. Requiring the GOP to cover transport costs also would place a potential constraint on the independence of the sponsor programs. What happens if the GOP does not or cannot cover transportation costs? Furthermore, the recommendation that beneficiaries cover the transport costs is made without consideration of the ability to pay. Given the fact that the targeted program beneficiary is classified as "extremely poor", the Mission and the cooperating sponsors cannot require the beneficiaries to pay. Lastly, there is no statutory or Regulation 11 requirement that the cooperating sponsor programs obtain financial commitments from the host government.

12. Recommendation No. 7 should include an explicit recommendation that CARITAS establish and implement a transparent system for procuring transport services with Title II proceeds.

This system should include procedures for: a competitive bidding system based on price quotes from a reasonable number of firms; appropriate consideration and weight given to qualifications and experience of firms; an independent, committee-based proposal review process; and a contract file system which documents selection decisions. In addition to the joint cooperating sponsor committee on transport rates (7.1), the Mission believes that a "transparent" and "competitive" transport procurement system for CARITAS will eliminate concerns over "contributions" received by CARITAS from transport contractors.

13. Recommendation Nos. 8, 9, 10, and 11 - acceptable.

14. Recommendation No. 12, regarding phase-out targets, indicators, and timeframes, should be eliminated. Phase-out recommendations should be directed towards AID/W offices responsible for the food aid programming and approvals.

First, the "phase out" of food aid is not a specific objective of the Mission, nor is it mandated by USAID/W, or any other authority. The audit recommendation is made without regard to any official policy, mandate, or requirement, and plays on USAID/Peru's interest and good will in objectively evaluating the role of food aid as a development resource. The recommendation turns what should be seen as a positive initiative into an unwarranted criticism.

USAID/Peru has gone beyond what is required to define the conditions that it considers necessary for higher degrees of food security and a future reduction in food aid: ability to finance food imports; more resources programmed for social sector needs; higher levels of investment in needy areas; greater control and capabilities in the targeting of GOP resources; and improvements in the overall levels of malnutrition and poverty. It considers the ongoing food aid program, among other development efforts, as a critical contribution towards the realization of these conditions, and hopes to demonstrate that these conditions are indeed plausible for the country as a whole, because they can be satisfied on a program level, by cooperating sponsor agencies with Title II resources. At the end of the current five-year program period (year 2000), the program should be judged on its own achievements in the areas of nutrition and production. Any decision to continue supporting food aid activities in Peru should take into account these achievements, the food security conditions that exist in the country at that time, the feasibility of any proposal, and the probability of food security related results.

Second, the 1996 Farm Bill prohibits USAID from denying requests for commodities either because the activity is in a country where USAID does not have a presence or where PL 480 assistance is not a part of USAID's development plan. Even if USAID were to take the position that food security conditions in Peru did not warrant additional food aid, and methodically presented indicators to support such a position, it cannot deny requests for commodities that could, in theory, be based on compelling support of their own, and need not have the support of the Mission to be considered.

Third, the role of the Mission in food aid programming decisions is limited. Its role includes the following: analyze, review, and concur with cooperating sponsor food aid proposals, storage and disincentive analyses, budgets, commodity requests, and work plans; certify systems for financial and commodity accountability; coordinate the activities of the cooperating sponsors with other Mission sponsored activities and other donors; oversee and monitor compliance with approved plans and food aid policies; report to the Mission and USAID/W regarding program problems, issues, performance and results. AID/W, and specifically BHR, in conjunction with the regional bureaus, ultimately is responsible for food aid programming decisions and approvals. The recommendation mistakenly places responsibility for establishing indicators, criteria for "graduation" from food aid, and targets for phasing out food aid with the Mission. Rather, this responsibility might more appropriately be placed with AID/W. Recommendation No. 12 should be directed toward AID/W in a separate report; not toward the Mission.

EXAMPLES OF PROJECTS LOCATED IN RELATIVELY LESS NEEDY DISTRICTS OR OPERATING IN CLOSE PROXIMITY TO EACH OTHER

Projects located in relatively less needy districts:

- All of the 60 child nutrition projects of ADRA's Cusco regional office were operating in the following districts with the indicated percentage child malnutrition rates: Cusco - 37.7, San Jeronimo - 55.5, and San Sebastin - 45.5. These districts were not in the rural Sierra. Rather, they are on the outskirts of the city of Cusco. The malnutrition rates generally were on the low end of the need spectrum within the department of Cusco, although ADRA stated that the local health posts had estimated the child malnutrition rates for the selected communities to range from 50 to 68 percent. Similarly, we noted that ADRA's Huancayo regional office had some of its nutrition projects around the city of Huancayo in the districts of Huancayo, San Jeronimo, and El Tambo, which relatively speaking had less severe child malnutrition rates (44.8 to 48.6 percent) compared to districts away from the city. The majority of the remaining projects for ADRA-Huancayo were in districts having child malnutrition rates of 60 percent or more, although there were projects in certain districts with low percentage rates i.e. Matahuasi - 47.0, Mito - 32.4, and Chambara - 20.0.

- Most of the projects of the Caritas Huancayo diocese were planned in districts with malnutrition rates in excess of 60 percent. However, there were a number of projects in districts indicated to be, relatively speaking, near the low end of the need spectrum e.g. Chambara - 20.0 percent, La Oroya - 35.5 percent, Concepcion - 43.2 percent, and Huay-Huay - 38.8 percent.

- CARE's program documents showed that 28 percent of CARE's food-for-work project locations were in districts with malnutrition rates below 60 percent and seven percent were located in districts with rates less than 50 percent.

- CARE's program documents also showed that it continued nutrition programs in Lima in districts which for the most part were in the 20 percent malnutrition rate range. The department of Lima is one of a handful of departments in the country rated as having the lowest average malnutrition rates. Further, the Mission provided us with information that all the cooperating sponsors continue with food aid projects in Lima, although at a reduced level from previous years.

Food aid projects operating in close proximity to each other:

- For the Caritas Huancayo diocese, the Santa Rosa de Lima child feeding center supported by Title II also ran a kitchen for the community supported by PRONAA, the Government of Peru's main food aid agency. The kitchen provided one meal per day, 20 days per month, to some 260 children (most of the children in the community), including the children participating in the Caritas project. We understand that Caritas was going to discontinue Title II support to that community in 1996.

- ADRA-Cusco child nutrition projects were in some cases located in the general vicinity of PRISMA, PRONAA and Caritas projects. For instance, PRISMA's PANFAR program was operating in the same districts as ADRA, and within walking distance to the two ADRA nutrition projects that we visited, according to the ADRA beneficiaries.

- For CARE, in the Trujillo area, for one of three community kitchens visited, there were other food aid programs (Caritas and PRISMA) operating within several blocks. A Government of Peru representative told us that there could possibly be a few individuals receiving rations under more than one of the food aid programs. The other two kitchens did not have other food aid kitchens in the immediate neighborhood, but relatively near.

EXAMPLES OF MONITORING PROBLEMS NOTED DURING OUR WORK AT COOPERATING SPONSORS

- Caritas headquarters reported information to the Mission on planned beneficiary levels for projects and progress on food-for-work projects based on information being reported to it by the Caritas diocese organizations. However, headquarters personnel stated they did not review the information for reasonableness and disclaimed responsibility for its accuracy. During our field visits, we noted various problems with the information. For example, the project information being reported to the Mission in an annual workplan for the Iquitos diocese bore little resemblance to the project plan that Iquitos showed us during our field visit. We also noted big variations in beneficiary levels from diocese to diocese on like projects (e.g. two kilometer long irrigation canals) and found inflated beneficiary estimates for certain projects.

- Commodity control problems were identified at some of the regional warehouses maintained by the cooperating sponsors and host-country entities (i.e. lack of segregation of duties, quantity differences between stock cards and our physical counts, lack of stock cards, inadequate storage facilities, etc.).

  For example, during our visit to ADRA's regional warehouse in Huancayo, we noted a lack of segregation of duties in that the person in charge of the warehouse also accounts for the commodities. Moreover, the warehouse was not large enough to store all the commodities. Alternative warehouse space in a larger warehousing area was obtained. The site did not have walls, and there were other clients who used the warehouse and would have access to USAID commodities. Therefore, security was compromised.

- The Huancayo diocese office of Caritas was giving commodities to certain unauthorized projects. The unauthorized projects were missing a code identifying the distribution center, so Caritas' headquarters should have been able to detect them had they been checking the diocese reporting, which they admitted they had not.

- Although ADRA's goal was for headquarters personnel in Lima to visit regional offices once each quarter, this was not happening. There were no visits to agricultural projects in 1995 because all attention was on the preparation of ADRA's new program proposal. For the infant nutrition program, the nutritionist made only one visit to three regional offices in 1995.

- At Caritas-Iquitos, we noted that the ration being followed had been changed from the level specified in Caritas' approved program without obtaining approval from Caritas headquarters. Further, we noted that the beneficiary levels in all the communities served had been adjusted upward from the approved program. According to Caritas-Iquitos, the reason for this was that it had purchased the commodities at a lower price than estimated in its budget so it bought a greater amount of commodities and was distributing them to the communities it was supporting.

- Adequate staffing at the regional level was sometimes lacking. For example, PRISMA's program coordinator for the Junin and Huancavelica departments was responsible for: (1) supervising and making site visits to 230 health establishments in these two departments, (2) performing physical inventories at 14 regional warehouses twice a year, and (3) assisting in training, among other duties. Because of her workload, she was only able to visit about 35 percent of the health posts in 1995. In visiting some of these health posts, problems were noted in the implementation of the programs such as incorrectly applying the graduation criteria.

- PRISMA's fiscal year 1995 progress report to the Mission contained very little or no data for 9 of the 29 regions (31 percent) having nutrition programs. Therefore, data such as the graduation rate, percentage of families receiving family planning counseling and other training, and the percentage of families receiving all rations was not available for these regions.

- Caritas-Iquitos did not maintain a kardex system for all the commodities in its warehouse (purchased with funds from multiple donors). A kardex was established only for USAID-funded commodities but in the second year of the USAID program, which kardex showed negative balances for various commodities as of the end of fiscal year 1995. [Note that negative physical inventory balances are not possible.] Before reviewing the kardex records, we had done a walk through of the warehouse and were shown stacks of commodities that Iquitos personnel stated were purchased with USAID funds. When questioned to explain why the kardex reflected negative balances while actual balances remained, Iquitos personnel stated that they had been mistaken and the commodities were not purchased with USAID funds after all. The Iquitos warehouseman also indicated that he did not have complete records on issues from the warehouse. As a result, it did not appear that the USAID-funded commodities over the life of the program could be fully accounted for.

- The monetization funds transferred to PRISMA's regional program coordinators to conduct regional activities were in the coordinators' personal savings accounts rather than in the name of the cooperating sponsor. Further, the cooperating sponsor headquarters did not receive bank statements for monitoring purposes. The accounts should be in the name of the cooperating sponsor and PRISMA's director should name the individuals authorized to withdraw from the accounts.

- Regional offices for CARE Peru did not maintain separate accounts for the monetization funds received from headquarters. [USAID Regulation 11 states that monetization proceeds should be deposited in a special interest-bearing account.] Instead, the funds were commingled with funds from other sources. As a result, it was not possible to determine whether the monetization funds were used for approved purposes. For example, in reviewing the bank reconciliation for the bank account of the Cajamarca regional office along with monetization advances given to CARE-Cajamarca and the reported monetization expenditures for the months of July and August 1995, it appeared that monetization funds were used for unapproved purposes. The excess amount of monetization advances to expenditures for July and August were 3,458 and 16,805 Peruvian Soles, respectively, when the ending adjusted bank balances were zero. Also, the CARE regional accounts were not interest-bearing.

- USAID monetization funds at Caritas-Iquitos were commingled with European Community funds in a savings account. From this savings account and another checking account maintained solely for USAID funds, transfers were being made to and from other donors' accounts and in a few cases to and from undetermined accounts. The General Secretary for Caritas-Iquitos explained this was due to making loans between accounts. We told the General Secretary she would have to cease the practice and additionally develop a record to show the loans between accounts together with supporting documentation and cumulative amounts loaned and repaid to date. Several months before our visit, Caritas headquarters had done a supervision visit and noted some of the same problems and sent a letter to the diocese urging it to correct the problems. However, there was no follow-up to ensure the problems were corrected.

- Caritas-Iquitos was not performing bank reconciliations. We suggested to the Secretary General that she have her accountant do monthly bank reconciliations on at least the three checking accounts corresponding to her major donors. Reconciliations of the other accounts could be done periodically depending on the movements within those accounts.

- Under CARE Peru's food-for-work program, the two regional offices visited were not correctly using the work standards as set by headquarters. Therefore, the workers received more food than they should have received.

- Statistics on the number of beneficiaries receiving food rations were sometimes based on programmed levels as opposed to the actual number of beneficiaries receiving food rations. For example, the statistics provided by CARE on the number of beneficiaries fed under its community kitchens project were based on the number of food rations given to the community kitchens rather than the number of beneficiaries fed rations. There were sometimes wide fluctuations between the number of rations programmed versus actual rations prepared. Caritas similarly reported programmed levels of beneficiaries when rations were often shared with additional beneficiaries that entered a project after the approved beneficiary levels had been set.

- Under one of ADRA's food-for-work projects, beneficiaries were getting rations for doing work maintaining the community's irrigation canals and roads. These were things that they would have been doing anyway, so we question the need for giving rations for these activities. Further, there was no expectation that such work would result in an increase in agricultural production.

- Until about April 1995, Caritas-Huancayo food-for-work projects were not adequately supervised as evidenced by the diocese finding 21 projects that were not progressing satisfactorily. Caritas-Huancayo said it was withholding further rations on these projects until the problems were resolved.

- At the two ADRA's regional offices visited, detailed information on each project was held by the project's technical supervisor away from the regional office. The files were disorganized and missing in many cases. This makes a review based on documentation as opposed to interview nearly impossible. This is a weak link in being able to monitor the operations and results of ADRA's projects. The regional offices should maintain the files with supervisors working with copies in the field.

- Not all Caritas diocese offices were using the standard accounting systems developed by Caritas headquarters. All were using the liquidation system (required by the headquarters to receive funds). However, only an estimated 30 to 40 percent were using the treasury system, and about 60 percent used the standard accounting system. Further, the dioceses participating in Caritas' jungle program were not required to follow Caritas' standard systems for control of commodities and for project planning.

APPENDIX V

EXAMPLES OF DIFFERENT PRODUCTIVITY EXPECTATIONS, FOOD-FOR-WORK STANDARDS USED BY CARE, CARITAS AND THE WORLD FOOD PROGRAM

ACTIVITY	CARE		CARITAS		WORLD FOOD PROGRAM	
	NUMBER OF WORKDAYS	UNIT OF MEASURE	NUMBER OF WORKDAYS	UNIT OF MEASURE	NUMBER OF WORKDAYS	UNIT OF MEASURE
SOIL CONSERVATION:						
SLOW-FORMATION TERRACES			(SEE NOTE 1)			
--WITH ROCKS, 20% SLOPE	400	Hectare (HA.)	833	HA.	600	HA.
--WITH ROCKS, 30% SLOPE	400	HA.	833	HA.	800	HA.
--WITH ROCKS, 40% SLOPE	400	HA.	833	HA.	1000	HA.
BARRIERS	0.5	Meter	1	Meter	ACTIVITY NOT LISTED	
RESTORATION OF INCA TERRACES	500	HA.	833	HA.	600	HA.
INFILTRATION DITCHES	250	HA.	833	HA.	200	HA.
REFORESTATION:						
PLANTING (NOTE 2)	100 to 170	1,000 plants	(SEE NOTE 3)		112 to 211	1,000 plants
ROAD WORK:						
REHABILITATION OF ROADS	400 to 600	Kilometer (KM.)	(SEE NOTE 3)		520 to 1,085	KM.

NOTE 1: For some of the activities below, Caritas' work standards included estimates combining linear, area and volume measurements. In these cases we used only the area standard. While this leads to an understatement of the number of workdays compared to what it should be, we used the number nonetheless as a conservative estimate of workdays needed using Caritas' standards.

NOTE 2: The planting of trees involves many sub-tasks including the clearing and preparation of the area, transporting the plants, digging the holes, and the actual planting. The data listed is the total workdays for all the sub-tasks.

NOTE 3: We were unable to determine the total standard because not all sub-tasks were listed. However, many of the sub-tasks listed by Caritas have the same work standards as the World Food Program.

EXAMPLES OF DIFFERENCES IN TRANSPORTATION RATES OBTAINED BY THE COOPERATING SPONSORS ON LIKE ROUTES

FROM	TO	ADRA	PERCENT FROM LOW	CARITAS	PERCENT FROM LOW	CARE	PERCENT FROM LOW	PRISMA	PERCENT FROM LOW
Callao	Lima	17	31%	15	15%	19	46%	13	LOW
Lima	Ayacucho	158	32%	150	25%	120	LOW	167	39%
Lima	Huancayo	80	100%	42	5%	74	85%	40	LOW
Lima	Pampas	120	22%	98	LOW	-	-	125	28%
Lima	Huancavaleca	-	-	98	LOW	105	6%	129	32%
Lima	Huaraz	-	-	52	LOW	72	38%	59	13%
Matarani	Cusco	94	LOW	172	83%	-	-	169	80%
Matarani	Arequipa	23	10%	28	33%	-	-	21	LOW
Matarani	Moquegua	42	LOW	65	55%	-	-	-	-
Matarani	Juliaca	65	LOW	172	165%	-	-	-	-
Salaverry	Chiclayo	45	105%	50	127%	-	-	22	LOW
Salaverry	Piura	60	25%	56	17%	48	LOW	50	4%
Salaverry	Tumbes	89	48%	81	35%	-	-	60	LOW

METHOD OF CALCULATION: The lowest rate for each line or route is labeled "LOW".
The percentages represent the amount a rate exceeds the LOW rate.

NOTE:
- Rates are in Peruvian soles per metric ton and do not include IGV tax of 18%.
- A dash (-) indicates the absence of the route or a predetermined rate.
- Shipments originating in Callao or Lima were considered the same origin.
- If there was more than one rate for a route, the lowest rate was used.
- Caritas rates from Salaverry are actually shipped from Lima.
- CARE rates were listed in U.S. dollars and were converted to soles ($1.00 = 2.3 soles).
- PRISMA rates are from 1996 cost, 1996 budget, or 1995 cost information; in that order.

DIFFERENCES IN THE COOPERATING SPONSORS' COMMODITY REQUESTS AND THEIR PROGRAM DOCUMENTS

COOPERATING SPONSOR/ PROGRAM	COMMODITY REQUEST		PROGRAM DOCUMENT		COMMODITY REQUEST MORE (LESS) THAN PROGRAM DOCUMENT	
	NO. OF BENEFICIARIES	METRIC TONS	NO. OF BENEFICIARIES	METRIC TONS	NO. OF BENEFICIARIES	METRIC TONS
CARE PERU						
--NUTRITION PROGRAM	111,520	5,647	45,900	4,621	65,620	1,026
--FOOD-FOR-WORK PROGRAM	54,950	4,352	75,000	5,378	(20,050)	(1,026)
ADRA						
--TOTAL PROGRAM	195,750	12,316	186,408	11,870	9,342	446
CARITAS						
--FOOD-FOR-WORK PROGRAM	349,000	13,402	298,367	11,457	50,633	1,945
PRISMA						
--PANFAR PROGRAM	73,166	10,975	75,000	11,250	(1,834)	(275)
--KUSIAYLLU PROGRAM	3,900	1,170	3,000	900	900	270
TOTAL					104,611	2,386

SOURCE: fiscal year 1996 approved annual estimate of requirements and program documents (i.e., approved program proposals and annual workplans).

Mission Food Security Objective Proposed in FY 1996-1997 Action Plan

**ANALYSIS OF SUPPORT FOR BASELINES
AND
ANALYSIS OF WHETHER MISSION'S
FY 1996 INTERMEDIATE RESULTS TARGETS
ARE SUPPORTED BY COOPERATING SPONSORS'
APPROVED PROGRAM DOCUMENTS**

Strategic objective 3: Improved Food Security of the Extremely Poor

Strategic objective level indicators:

Indicator No. 1: Rates of chronic malnutrition in children (height for age more than two standard deviations below NCHS standard) in extremely poor departments

Unit: Percent of children in "Sierra" region of Peru

Source: Encuesta Demografica y de Salud Familiar 1991/1992 (Demographic and Health Survey)

Baseline: 1992, 51.6 percent in the Sierra Region of Peru

Baseline
Supported ?: Yes, 51.6 percent for children in the Sierra less than five years old

Indicator No. 2: Rates of global malnutrition in children (weight for age more than two standard deviations below NCHS standard) in extremely poor departments

Unit: Percent of children in "Sierra" region of Peru

Source: Encuesta Demografica y de Salud Familiar 1991/1992 (Demographic and Health Survey)

Baseline: 1992, 14.6 percent in the Sierra Region of Peru

Baseline

Supported ?: Yes, 14.6 percent for children in the Sierra less than five years old

Indicator No. 3: Per capita food availability in Peru

Unit: Calories per day

Source: FAO/Ministry of Agriculture 1991/96

Baseline: 1991, 1829 calories per day

Baseline
Supported ?: Yes, but not directly from the cited source and it's a three-year average rather than a figure only for 1991.

The 1829 per capita calories per day figure comes from statistics included in the Agency's 1994 World Food Day Report. Specifically Annex B of that report shows the three-year average for 1990-1992 and was complied by USAID's Economic and Social Data Service (ESDS) in 1994. The ESDS used a data base from the Food and Agricultural Organization (FAO) in coming up with the figure.

Various sources of per capita food availability in Peru showed different numbers. We did not determine what information sources and adjustments were used by either the FAO or ESDS.

A note is that the FAO information isn't available until a year or two after the fact. Therefore, when the Mission gets to the end of the period and needs to demonstrate that the targets were met, the information may not be available from the cited source.

Indicator No. 4: Primary education rates for men and women (6 years and older) in extremely poor areas.

Note: The baseline for this indicator and its intermediate result indicators were not included in the audit since they relate to a program implemented by the World Food Program.

Intermediate result indicators:

Intermediate result No. 1: **Nutritional rehabilitation of children under five in program households**

Indicator No. 1: **Number of high risk children participating in Title II nutritional programs**

Definition: High risk is defined by a set of socio-economic, physical and biological characteristics (e.g. employment, education level, presence of malnourished children, incidence of diarrhea/respiratory infections, births spacing, number of children in family) which indicate presence or high risk of malnutrition in children under 36 months old.

Unit: Children aged 0-5 years

Source: PVO project records

Baseline: 1994, 218,000

Baseline Supported ?: Not the specific number. Mission supplied a range of numbers which it took out of the cooperating sponsors' 1994 annual reports as follows:

CARE	3,953				
Caritas	111,276	or	429,465		
ADRA	12,535	or	43,197		
PRISMA	107,244	or	119,716	or	162,783
	235,008		596,331		639,398

Planned target for FY 1996: 60,000

Planned target supported by program documents ?: No. The cooperating sponsors' FY 1996 program documentation indicates the following:

75

ADRA	30,600	
Caritas	33,615	children at risk
	45,303	mother child
CARE	16,400	
PRISMA	120,000	PANFAR
	2,875	Kusiallyu
Total	248,793*	

* Caritas' program proposal did not include a breakout of the child beneficiaries under its jungle program so this total does not include these children.

Indicator No. 2: Rate of graduation of high-risk children from program with positive growth tendencies

Definition: Proportion of children entering program who demonstrate positive growth and compliance with health milestones within 6-20 month participation limits

Unit: Percent

Source: PVO project records

Baseline: 1994, 36 percent

Baseline Supported ?: No. The supporting information shows that PRISMA had a graduation rate of 37 percent over a six-month period for its PANFAR program and a 56 percent graduation rate over a six-month period for its Kusiayllu program. Note that the Kusiayllu program is very small compared to the numbers in the PANFAR program. The graduation rate would be much higher if the percentage was calculated using how many people left the program within one year after entering versus the graduation experience in the last six months. The Mission framework is asking for a percentage over a one-year period but for its baseline it's using a percentage over a six-month period.

The other cooperating sponsors did not report graduation rates, although for all of them, one way or another, people leave the program and thus might be considered to be graduated.

Caritas reported a 27 percent recuperation rate (children recovering from malnourished to a normal status). However, Caritas did not "graduate" people from the program in the sense that if the children were nutritionally recuperated and their mothers had received the planned training then rations would be discontinued. Instead Caritas projects usually lasted a year, maintaining the beneficiaries in the project throughout that time regardless of the child's nutritional status.

ADRA's projects lasted 20 months and, like Caritas, all the beneficiaries were kept in the project the whole time and dropped at the end.

CARE's MENU program was intending to follow the PRISMA's model but was just beginning at the time of the audit and not well thought out yet. CARE's NINOS project provided training to mothers over an 18-month period, after which the mothers were to leave the program.

Mission comment: Rate of 36 percent is a conservative estimate.

Auditor comment: The actual rate apparently was something other than 36 percent on an annual basis.

Planned target for FY 1996: 50 percent

Planned target supported by program documents ?: No. The Mission's rationale for setting the FY 1996 target was not specified.

PRISMA's fiscal year 1995 accomplishments (six-month period) for its PANFAR and Kusiallyu programs were 40 and 53 percent, respectively. PANFAR, being the much larger program, would tend to drive the combined number to the low 40s. Of course, this analysis is aside from matters discussed previously, i.e. PRISMA's percentages would be higher on an annual basis, and the other cooperating sponsors programs need to be factored in.

Intermediate result No. 2: Increased incomes available for food consumption in extremely poor households

Indicator No. 1: Number of extremely poor households adopting improved technology

Definition: Farmer households adopting new practices (improved seed, inputs, etc.) on individual holdings

Unit: Cumulative number of farmers

Source: PVO project records

Baseline: 1994, 59,688

Baseline Supported ?: No. The information provided by the Mission from the cooperating sponsors' 1994 annual reports to support the above figure was as follows:

CARE	24,033
Caritas	39,296
ADRA	371
	63,700

CARE's number is the total number of families benefited by the Altura program, CARE's only food-for-work program. The types of activities the benefiting families were involved in was soil conservation, agroforestry systems, reforestation, and crop production on improved soils. It's not clear that all (or any) of these activities strictly meet the definition for the indicator.

Caritas' number comes from a subset of its food-for-work activities, specifically from Caritas' Program of Support to the Production of Food. The number is the families involved in planting campaigns. The number is a subset of the 162,830 families involved in all of Caritas' food-for-work program in that year. Based on the 58 percent that the number of hours spent on agricultural projects was to the total number of hours on all food-for-work projects, to be consistent with the number used for CARE, the number used for Caritas would be more like 58 percent times 162,830 = 94,441. However, as with the number used for CARE, it is not clear that all (or any) of these activities strictly meet the definition for the indicator.

ADRA's number is the number of hectares reported by ADRA as being under agricultural production through what it termed Family Agricultural Unit of Production. ADRA's intervention involves the beneficiaries adopting new technologies. However the indicator calls for a count of the number of farmers—not hectares.

Mission comment to auditors: The baseline of 59,688 is a conservative calculation that shows the relative size and extent of the program in 1994.

Auditor observation: The Mission is attempting to draw baseline information out of statistics that may not have met the indicator definition.

Planned target for FY 1996: 15,000

Planned target supported by program documents ?: No. ADRA is the only cooperating sponsor whose program documents include a direct measure of this indicator. ADRA plans for 14,483 families to adopt new agricultural technology starting in FY 1996.

PRISMA's CEATS program also is planning to provide agricultural inputs, i.e., seeds, fertilizer, and pesticides in the form of credits to 552 families during FY 1996 to allow those families to improve their agricultural production and therefore increase their incomes.

The program documents for both CARE and Caritas do not specifically discuss a number that corresponds to the Mission's indicator. However, as noted previously, one would expect that some of the participants in both CARE's and Caritas' agricultural programs to adopt improved technologies on their own land. For FY 1996, CARE is planning 38,250 participants in its Altura program and Caritas is planning 51,200 participants in its agriculturally oriented food-for-work programs. Therefore, the number of participants who adopt improved technology on their own holdings likely will greatly exceed the Mission's targets.

The Mission needs to come to a consensus on what results should be reported under this indicator, and the cooperating sponsors need to collect the information and state within their program documents their targets.

Indicator No. 2: Hectarage under intensified management

Definition: Hectarage under intensified management through program intervention (e.g., irrigation, improved seeds, improved technology).

Unit: Hectares

Source: PVO project records

Baseline: 1994, 19,917

Baseline

Supported ?: Not the specific number. The Mission provided the following information from the cooperating sponsors' 1994 annual reports to support the baseline:

CARE	7,477		
Caritas	10,631	or	18,828
ADRA	371		
	18,479	or	26,676

CARE's number is the total number of hectares in the Altura program. The types of interventions were soil conservation, agroforestry systems, reforestation, and crop production on improved soils.

Caritas' number is the number of hectares involved in the 93/94 (18,828) or 94/95 (10,631) planting campaign under Caritas' Program of Support to the Production of Food. These numbers do not include other interventions beyond the planting campaigns. Caritas had other food-for-work projects whose effects would lead to more hectares under intensified management. For instance, Caritas reported 513 irrigation infrastructure projects which, if they were new construction, would place additional hectares under irrigation. This isn't counted. Also, the were other projects such as 124 soil conservation projects, 162 reforestation projects, 382 community livestock projects and 9 fish farms which would not have been counted in the planting campaigns but would have placed hectarage under intensified management.

The number of hectares used for ADRA was its agricultural production under what it termed Family Agricultural Unit of Production. In addition to those hectares, ADRA also had 224 hectares planted in demonstrative plots, and completed work of three kilometers of canals which, if new construction, would have brought more hectares under intensified management.

Mission comment to auditors: Baseline is conservative estimate.

Auditor observation: The Mission pulled some numbers together to support the baseline but it's not clear that the numbers used were consistent from sponsor to sponsor.

Also, this example demonstrates the need to spend some time with the cooperating sponsors sorting through the different project interventions to decide what should be counted and what should not.

Planned target for FY 1996: 10,000 hectares

Planned target supported by program documents ?: No. Just part of the planned interventions for Caritas in FY 1996 exceed the planned target. When CARE and ADRA are considered the numbers should be higher. The problem, as explained previously, is reaching a common understanding on what should be counted under this indicator.

Caritas' approved program proposal shows 7,335 hectares with improved irrigation and 3,390 hectares protected by soil conservation practices, and this does not include all of Caritas' interventions.

ADRA's approved program proposal shows 1,645 hectares under various types of improved management. The proposal also shows 160 kilometers of irrigation canals constructed. We did not determine whether ADRA's hectarage figures included land brought into production as a result of new irrigation canals.

PRISMA's CEATS program plans to put 690 hectares under intensified management during FY 1996.

We requested that CARE provide a number for its program, but CARE personnel stated that they did not know what the indicator means. As noted previously, the CARE figures supplied to the auditors to support the Mission's baseline include the total hectarage from CARE's Altura program. To be consistent the hectarage under the Altura program would also need to be included.

Indicator No. 3: Number of microenterprises assisted in extremely poor areas

Definition: Non-farm economic activities confined to individuals or groups of less than 10 persons in program areas, which have received technical assistance, training or credit in the reference year.

Unit: Number of women- and men-led enterprises

Source: PVO project records

Baseline: 1994, 2,091

Baseline Supported ?: Not the specific number. The Mission provided the following information from the cooperating sponsors' 1994 annual reports to support the baseline:

ADRA	739		739
CARE	1,740	or	1,992
	2,479	or	2,731

The number used for ADRA is what ADRA reported as production units established as microenterprises. ADRA also reported another number (188) as microenterprises established, which, if it is something separate, is not included in the ADRA count.

The two alternative numbers used for CARE refer to two separate CARE projects and therefore appear as though they should be added together rather than used as alternatives. The 1,740 figure is for CARE's Women's Income Generation Project, while the 1,992 figure is from its Small Enterprise Development Project.

Mission comment to auditors: The Mission acknowledged that the baseline should be higher.

Auditor observation: The baseline should be higher than the Mission reported. From this and other examples, it appears that the Mission came up with baseline figures without knowing whether the information it was using fully met the indicator definition and whether it was complete. It would have been better to have had the cooperating sponsors provide the information from their records after the Mission explained the indicator definition and discussed with the cooperating sponsors the various project situations to decide what should be included in the counts.

Planned target for FY 1996: 2,000 microenterprises assisted

Planned target supported by program documents ?: No. CARE's program documents indicate that the owners of 19,100 microenterprises in total under the MIFA, Mujer, and Ingresso programs, will receive technical assistance, training or credit over a five-year period (average 3,820 per year). (CARE's approved program proposal did not give an annual breakout.) So depending upon how this indicator is intended to be interpreted, and the number to receive such assistance in FY 1996, CARE's interventions alone might exceed the planned target.

Caritas' PROGEIN program supports income generation projects, which for the most part involved with the processing and trading of agricultural products, as opposed to growing the products. The auditors do not know whether the "non-farm" aspect of the indicator definition was meant to exclude such enterprises, or whether "non-farm" simply was meant to exclude enterprises which actually produce the crops. We did not determine how many projects and microenterprises were involved in the PROGEIN program. However, rations for 5,645 families were planned for FY 1996.

PRISMA's PASA program was planning to assist 7,200 non-farm microenterprises over five years (1,440 per year average.)

Indicator No. 4: Rate of loan/revolving fund repayment (male/female)

Definition: Proportion of loans made in farm and non-farm credit schemes not in arrears in reference year.

Unit: Percent

Source: PVO project records

Baseline: 1994, 62 percent

Baseline Supported ?: No. No support was provided for the baseline figure other than the Mission's statement that CARE's annual report indicates that their Women's Income Generation Project had a default rate of five percent.

Further, ADRA used revolving fund loans in both its agricultural and microenterprise interventions, and the experience on these programs was not taken into account.

Mission comment to auditors: 62 percent is a very conservative estimate

Auditor observation: Since the baseline's purpose is to measure the extent of subsequent improvements, setting the baseline low overstates the extent of subsequent improvements, if any. In the present case, if the baseline is a 95 percent repayment rate, then the Mission's planned target of 80 percent for FY 1996 would be worse performance than the baseline. Also, the interventions of other cooperating sponsors were not taken into account in setting the baseline.

Planned target for FY 1996: 80 percent repayment rate

Planned target supported by program documents ?: No. CARE's repayment rate of 95 percent under its Women's Income Generation Project already exceeds the FY 1996 target (as well as the end of project target of 90 percent). PRISMA's CEATS and PASA programs are also expecting a 95 percent or better repayment rate. The approved program proposal for ADRA did not specify the planned repayment rates, but we are not aware that there are any significant problems.

Indicator No. 5: Food-for-work temporary employment

Definition: Number of food-for-work participants during reference year

Unit: Number of persons

Source: PVO project records

Baseline: 1994, 209,098

Baseline Supported ?: Not the specific number. The cooperating sponsors' annual reports for 1994 indicated the following number of food-for-work participants:

CARE	24,033
ADRA	43,437
Caritas	162,830
	230,300

Auditor observation: The auditors do not know the basis for the Mission's count.

Planned target for FY 1996: 120,000 work participants

Planned target supported by program documents ?:	Yes. The program documents for CARE, Caritas and ADRA indicated the planned number of food-for-work participants for FY 1996 will be 122,223. This is not a significant difference from the Mission's planned target.