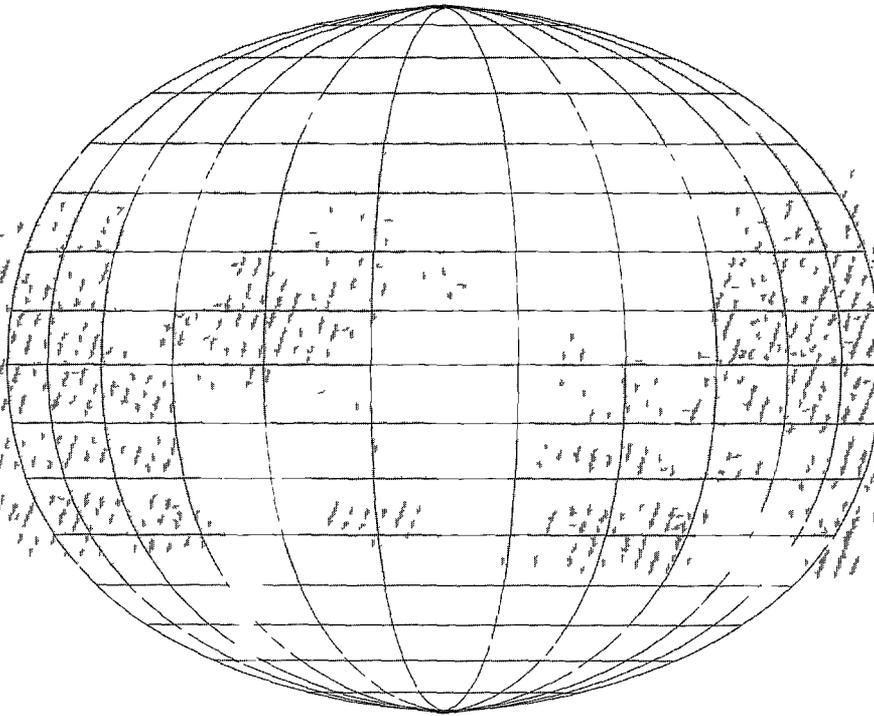


PD-ABQ-700

Report of Audit

Audit of USAID/Somalia's P.L. 480 Title II Emergency Feeding Program

Report No. 4-649-98-002-P
August 14, 1998



REGIONAL INSPECTOR GENERAL/PRETORIA
OFFICE OF INSPECTOR GENERAL
U.S. AGENCY FOR INTERNATIONAL DEVELOPMENT



Regional Inspector General
Pretoria

memorandum

August 14, 1998

MEMORANDUM FOR REDSO/ESA DIRECTOR, Donald Mackenzie

FROM Regional Inspector General/Pretoria, Joseph Farinella

SUBJECT Audit of USAID/Somalia's P L 480 Title II Emergency Feeding
Program, Report No 4-649-98-002-P

This memorandum is our final report on the subject audit. The report is being sent to you since your office has been assigned responsibility for the administration of the Somalia Program following the closure of the USAID/Somalia Mission on June 30, 1998.

Based on the results of our audit, the report contains two recommendations. Recommendation No 1, directed to USAID/Somalia shortly before its closure, requires final action on the part of REDSO/ESA. Please advise the Office of Management Planning and Innovations (M/MPI) when this final action has been completed so that it may be recorded. Recommendation No 2 must be addressed by BHR/FFP.

In finalizing this report, written comments on the draft document were requested from both USAID/Somalia and BHR/FFP, but were received from the Mission only. We have considered USAID/Somalia's comments on the draft report and have made changes wherever appropriate. The comments are included in their entirety in Appendix II. Please respond to the report within 30 days indicating any actions planned or taken to implement Recommendation No 1 contained in the report. A copy of this report is also being furnished to BHR/FFP since this office will be responsible for carrying out actions to implement Recommendation No 2 once Recommendation No 1 has been completed.

I appreciate the cooperation and courtesies extended to my staff during the audit.

Summary of Audit Findings

USAID/Somalia monitored the World Food Program in Somalia (WFP/Somalia) within its manageable scope of responsibility and control. However, to provide the level of oversight necessary to *effectively monitor* program operations, we believe USAID/Somalia must, at a minimum, know the quantity of U S government food commodities shipped, received, and distributed to the intended beneficiaries. USAID/Somalia, however, was unable to accomplish this because of inadequate reporting by WFP/Somalia. This report makes two recommendations directed to (1) USAID/Somalia to develop a plan offering a viable and accountable alternative delivery system for distributing U S food commodities in Somalia and (2) USAID Bureau for Humanitarian Response's Office of Food for Peace to make a final decision on USAID/Somalia's plan.

Background

After enduring years of civil war and armed conflict, Somalia has remained a fragmented country. Despite repeated attempts by the international community to broker a reconciliation among the warring clan factions, little progress has been achieved toward the formation of a consensus national government.

Presently, the reason for USAID's presence in Somalia is primarily humanitarian. With many of the country's key food production areas faced with armed conflict, sporadic insecurity, and serious weather-caused crises, such as drought and floods, farmers have been unable to plant their crops and are often forced to leave their land, causing chronic food shortages in certain regions of the country. To alleviate the suffering caused by these shortages and help to prevent the return of mass starvation and death in the country, USAID has provided emergency food assistance for relief and rehabilitation activities within Somalia. This assistance is channeled through the United Nations' World Food Program which is the primary distributor of food assistance in this war-torn country.

In addition to providing the country with food assistance, USAID/Somalia awarded a \$4 million grant to WFP/Somalia, in June 1994, to assist WFP in effectively planning and monitoring the distribution of food resources for relief and rehabilitation activities in Somalia. During the period of this grant (June 1, 1994 through June 30, 1997), USAID furnished WFP/Somalia with approximately 32,500 metric tons (mts) of Title II food commodities, valued at \$21.2 million.

This audit was performed at the request of the USAID Representative to Somalia based on problems noted within WFP/Somalia's food distribution operations involving incomplete reporting and lack of accountability over food commodities and funds.

Audit Objective

The audit involved an assessment of USAID/Somalia's system for monitoring the food program in Somalia and was designed to answer the following question

Did USAID/Somalia adequately monitor U S food donations to the World Food Program in Somalia to ensure that the food assistance was delivered to the intended beneficiaries?

See Appendix I for a complete discussion of the scope and methodology for this audit

Audit Findings

Did USAID/Somalia adequately monitor U.S. food donations to the World Food Program in Somalia to ensure that the food assistance was delivered to the intended beneficiaries?

USAID/Somalia was not always able to adequately monitor U S food donations to the World Food Program in Somalia (WFP/Somalia) to ensure that the food assistance was delivered to the intended beneficiaries

WFP is exempt from USAID's Title II accountability requirements placed on other program sponsors since the former is a U N agency WFP, however, is responsible for ensuring that Title II food commodities are distributed and utilized for the purposes set forth in the USAID Transfer Authorization, that losses are avoided, and that adequate records are developed and maintained Upon request, USAID shall have access to and the right to examine WFP's records and reports and, if found to be inadequate, WFP shall provide USAID with additional information as it may request relating to the handling and disposition of U S -donated food commodities

As the lead agency for U S interaction with WFP, USAID is responsible for working through the WFP governing board to ensure proper accountability for U S food contributions Within USAID, the Bureau for Humanitarian Response's Office of Food for Peace (FFP) is responsible for programming Title II resources and ensuring that accountability is maintained for U S food donations and funding to WFP Since title to USAID food commodities passes to WFP at the time of collection at the U S port of embarkation, USAID Missions have no formal responsibility concerning control, management, or accounting for the food donated to any WFP program USAID, however, still maintains a fiduciary responsibility to protect U S government funds and commodities In carrying out this responsibility, missions should have a general knowledge of how projects are functioning and develop a close working relationship with WFP representatives in the field USAID Missions are also encouraged to be alert to any

problems within WFP program management and are required to periodically assess this management and advise USAID/W of any needed improvements

USAID/Somalia monitored the WFP/Somalia program within its manageable scope of responsibility and control. This was evidenced by the Mission's on-going assessments of WFP/Somalia's operations and frequent communications with FFP concerning problems identified within the Somalia program. For example, USAID/Somalia reported a number of these problems in two 1997 cables to FFP in which the Mission summarized the results of its assessment of WFP/Somalia's operations. These assessments questioned WFP's financial management and programmatic practices which among other problems included (i) inadequate financial reporting, (ii) unreported food losses and loans and (iii) the disappearance of 250 mts of USAID food commodities from a warehouse in Somalia.

However, to provide the level of oversight needed to *effectively monitor* program operations, we believe USAID/Somalia must, at a minimum, know the quantity of food commodities shipped, received, and distributed to the intended beneficiaries.

USAID/Somalia Could Not Effectively Monitor U S Food Assistance to Somalia

USAID/Somalia was unable to effectively monitor U S food assistance allocated to WFP in Somalia. Although the Mission had records showing the amount of food consigned to WFP/Somalia, it was unable to determine (1) the total USAID food commodities delivered to and distributed in Somalia by WFP during the period covered by the audit, (2) the status of food consigned to WFP/Somalia but loaned to other regions, (3) the total food commodity losses incurred, and (4) details on how \$4 million in development assistance (DA) grant funds were used.

USAID/Somalia was unable to determine this information because of inadequate reporting by WFP/Somalia. Specifically, WFP reports were of little or no use to USAID/Somalia's monitoring needs as illustrated by the following examples:

- ▶ **Progress Reporting** WFP complied with most of the reporting requirements under the DA grant by providing quarterly, mid-term and final activity reports to USAID. However, according to Mission officials, these reports were of limited use since they generally reported on distribution operations for donors in aggregate and did not provide a breakout identifying the quantity of U S food actually received and distributed. A senior FFP official acknowledged that reporting is a generic problem within WFP as far as obtaining appropriate reports with all of the needed data on time and delivered to the right parties.
- ▶ **Audit Reporting** The grant also stipulated that a copy of any WFP/Somalia internal audit reports would be provided to USAID. According to Mission officials, however, USAID/Somalia was unable to obtain copies of reports for internal audits conducted in 1995 and 1997 of WFP/Somalia's operations despite numerous requests.

- ▶ **Financial Reporting** The Mission was unable to ascertain exactly how the \$4 million under the grant was spent since grant expenditures were not reported by WFP in sufficient detail. A provision in the DA grant stated that WFP will furnish Financial Status Reports (SF-269) and a final financial report *in sufficient detail to enable USAID to liquidate the grant*. All financial reports will record accrued expenditures made to date along with comparisons of these expenditures with original plan figures.

WFP submitted the SF-269 reports as required. However, according to the USAID/Somalia Representative, WFP did not provide a final financial report in sufficient detail to liquidate the grant, nor did it provide a comparison of actual expenditures with original plan figures. This data was not furnished by WFP despite repeated attempts by the Mission to obtain this information in order to administratively approve the SF-269 reports submitted earlier for payment. WFP contended that it complied with the reporting requirements contained in the grant. The USAID/Somalia Representative, who is also the Grant Officer, however, disagreed and initiated action to administratively disapprove the \$4 million in expenditures claimed by WFP under the grant.

- ▶ **Food Loss Reporting** USAID/Somalia was also unable to obtain loss reports from WFP detailing actual food losses involving U.S.-donated food commodities or explanations on possible food losses brought to the Mission's attention.

As a result of these reporting problems, USAID/Somalia had no reasonable assurance that the quantity of food shipped during the grant period, totaling an estimated 32,500 mts and valued at approximately \$21.2 million, was received and distributed to the intended beneficiaries.

In addition, the Mission did not know the full extent to which food was being lost as a result of inadequate reporting by WFP. Examples of losses or possible losses that were not reported by WFP, but which the Mission became aware of through its own site visits and outside sources include the following cases:

- In reviewing a cable requesting concurrence on the status of prior food loans, the Mission learned of the possible existence of 10,000 mts of maize, valued at an estimated \$1,200,000, which was last reported to have been stored in Djibouti in early-1994 for loan to Ethiopia. In following up on the status of this loan, the Mission was informed that the loan was never made, but was unable to obtain an explanation as to the existence or final disposition of this food from WFP.
- During a site visit, in early 1997, a mission project officer noted that 4,430 mts of USAID-furnished maize, valued at \$532,000, had spoiled at the port in Dar es Salaam due to "deplorable conditions" in the grain silo where the maize was being stored prior to being transhipped to Somalia for distribution. Since the food was deemed unfit for human consumption, it was later sold for cattle feed.

- In November 1996, 100 mts of USAID-donated food valued at approximately \$76,760 was lost during a fire at a WFP-leased warehouse in Mombasa, Kenya—a food loss the Mission only became aware of when it read about the incident in a local newspaper and later investigated the damage during a site visit

In addition to not receiving reports on food losses, the Mission's difficulty in obtaining information on loaned commodities hindered its ability to adequately plan for programming needs. According to Mission officials, without necessary pipeline information, it is impossible for the Mission to call forward food and responsibly plan for future programming needs.

Many of the problems noted above, in particular the reporting deficiencies, have been identified in a prior GAO report issued in January 1994, titled Foreign Assistance Inadequate Accountability for U.S. Donations to the World Food Program (GAO/NSIAD-94-29). For example, this report indicated that WFP reporting was incomplete and inaccurate, in part, because WFP's accountability procedures were not effective in ensuring that use and loss rates for donated commodities were identified and reported on a project-specific basis to donors.

In light of the large volume of U.S.-funded food commodities being donated to the Somalia program and USAID's inability to adequately ensure that these resources are being used as intended, we believe that USAID needs to take further action to seek improvements in existing monitoring and delivery mechanisms in Somalia.

In July 1997, USAID/Somalia evaluated WFP/Somalia's performance and recommended a 1-1½ year suspension of further Title II food donations to the WFP program in Somalia. Following this evaluation, USAID/Somalia, with concurrence from FFP, suspended food aid to WFP for a six to nine month period. FFP believed that this time frame was sufficient for WFP to demonstrate improved performance. However, at the conclusion of the audit field work in March 1998, many of the issues discussed in our report were still unresolved. For example, the Mission had still not received satisfactory audit, loss and financial reports from WFP. As a result, we are making the following recommendations:

Recommendation No. 1 We recommend that USAID/Somalia develop and submit a plan to the Bureau for Humanitarian Response's Office of Food for Peace to implement a viable and accountable alternative delivery mechanism for distributing P.L. 480 Title II food assistance in Somalia.

Recommendation No. 2 We recommend that the USAID Bureau for Humanitarian Response's Office of Food for Peace make a final decision on USAID/Somalia's plan to implement an alternative delivery mechanism in Somalia and, in the interim, continue its present suspension of food assistance to WFP/Somalia, unless a new humanitarian crisis in Somalia makes it critical to provide WFP with additional food resources.

Management Comments and Our Evaluation

In responding to our draft audit report, USAID/Somalia concurred with the audit findings and recommendations contained in the report and stated that the findings confirmed what the Mission had been documenting for over a year. The complete text of the Mission's comments is found in Appendix II.

In commenting on Recommendation No. 1, USAID/Somalia stated that it intends to satisfy this recommendation through the submission of a proposal by CARE to continue to distribute emergency food through local NGOs and, in addition, provide subgrants for operational costs and food distribution by international NGOs. At the time the Mission submitted its response to the draft report, in June 1998, CARE was in the process of finalizing this proposal. With the closure of the USAID/Somalia Mission on June 30, 1998, REDSO/ESA assumed responsibility for the administration of the Somalia Program and, as a result, will be responsible for final action in addressing Recommendation No. 1. Since USAID/Somalia, in its comments on the draft report, has already concurred with the recommendation, a management decision has been reached on Recommendation No. 1. REDSO/ESA, however, will be responsible for forwarding the finalized proposal by CARE to BHR/FFP for review and a final decision.

Regarding Recommendation No. 2, a management decision will be reached on this recommendation when BHR/FFP, following its review of the CARE proposal, furnishes RIG/Pretoria with written notification on the results of this review, including an explanation on the basis of its decision on the implementation of the proposal.

USAID/Somalia also noted in its response that the audit report cited the possible disappearance of 10,000 MT of food from the port of Djibouti, but did not include a recommendation on this issue. A recommendation addressing this issue was not made since there was insufficient supporting records or other evidence available at the time of the audit to establish whether this food ever existed, thereby preventing us from confirming whether a loss actually occurred.

With regards to BHR/FFP's response to the audit, USAID/Somalia pointed out that while BHR/FFP did not furnish formal comments on the report, it had informally expressed its belief that the present USAID support for CARE operations in Somalia fulfilled the audit recommendations. While USAID is currently providing funding to CARE in Somalia, the existing level of USAID support for CARE does not permit this NGO to distribute anywhere near the volume of P L 480 Title II food assistance presently being distributed by WFP and, therefore, does not allow CARE to provide a viable alternative and accountable delivery mechanism at this time as intended under Recommendation No. 1.

SCOPE AND METHODOLOGY

Scope

We audited USAID/Somalia's P L 480 Title II emergency feeding program in accordance with generally accepted government auditing standards. The fieldwork was done from January 12, 1998 through March 20, 1998 and principally covered the period from June 1, 1994 through June 30, 1997 which corresponded with the Mission's development assistance grant to the World Food Program in Somalia (WFP/Somalia). During the period of this grant, USAID furnished WFP/Somalia with approximately 32,500 metric tons (mts) of Title II food commodities, valued at \$21.2 million.

Because our audit objective involved a review of USAID/Somalia's monitoring of WFP/Somalia's food distribution activities, we concentrated our audit work on examining existing documents and records on-file at the Mission located in Nairobi, Kenya. This Mission subsequently closed on June 30, 1998 at which time REDSO/ESA was assigned responsibility for administering the Somalia Program.

In addition to the Somalia Mission, site visits were made to the following locations:

- WFP/Somalia's country office in Nairobi and field office in Mombasa, Kenya
- WFP-leased warehouses and other storage facilities at the ports of (1) Dar es Salaam, Tanzania, (2) Mombasa, Kenya, and (3) Mogadishu, Somalia
- NGO offices and food distribution sites in Bardhera and Bu'ale (Southern Somalia)
- WFP emergency food airdrop operations in Mombasa and Southern Somalia

Since WFP was the primary distributor of USAID-donated food in Somalia and is exempt from USAID's Title II accountability requirements, being a U N agency, we were unable to conduct a detailed review of the distribution process and audit WFP records. As a result, our site visits were confined to making observations of commodity receipt, storage and distribution operations.

Methodology

The audit objective was to determine if USAID/Somalia adequately monitored U S food donations to the World Food Program in Somalia (WFP/Somalia) to ensure that the food assistance was delivered to the intended beneficiaries

To accomplish this audit objective, we interviewed officials from the Mission, WFP/Somalia, NGOs, and at project sites. In addition, we reviewed and analyzed planning and program documents, assessed the adequacy of management controls and determined the extent of risk exposure with regard to the Mission's monitoring procedures in collecting and reporting performance data and using such information to enhance program effectiveness. Also, we obtained written representations from cognizant Mission officials for all essential assertions relating to the audit objective

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June 8 1998

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Subject Audit of USAID/Somalia s P L 480 Title II Emergency
Feeding Program

Dear Mr Farinella

The USAID Somalia Mission would like to thank RIG/Pretoria for making the decision to conduct the subject audit of our food aid program based on our request of rather short notice We also want to commend the audit team on their professionalism in carrying out the audit

With regard to the draft audit report we are pleased with both the findings of the auditors and their recommendations Having an independent objective authority confirm what we have been documenting for over a year is very much appreciated

Without going into detail on all facets of the report we find it important to comment on the interlinking relationship of the two audit recommendations 1) That USAID/Somalia develop a viable and accountable alternative delivery system to the World Food Program (WFP) and 2) That BHR/FFP make a final decision on the Mission's plan

While submitting no formal comments BHR/FFP has informally expressed its belief that the present USAID support for CARE, separate from WFP fulfills entirely the audit recommendations While we agree that CARE's operations merit continued support we also believe that future USG food commodities and funds that would have gone to WFP could be better utilized to strengthen directly NGOs operations in Somalia

Currently, the Mission intends to satisfy Recommendation 1 through the submission of a proposal by CARE to continue to distribute emergency food through local NGOs and in addition provide subgrants for operational costs and food distribution by international NGOs

In addition there are significant continuing concerns within the Somalia food program USAID Somalia remains deeply concerned over the apparent lack of accountability within WFP, and the apparent lack of USAID administrative capacity and resolve to take actions necessary to reduce the costs to the US taxpayers for the delivery of PL-480 Title II emergency commodities Somalia program issues that remain outstanding at this time include

1) WFP appears to have relinquished its responsibilities and is hiding behind agreements that it is exempt from USAID's accountability requirements, which are routinely imposed on foreign governments and non-governmental organizations because it is a U N Agency Although it appears that WFP does have a credible internal audit capacity unfortunately it also appears that WFP neither takes its internal audits seriously nor makes copies of these reports available to its funding agencies For example USAID, another self-auditing agency makes copies of its internal audits available to the general public under the Freedom of Information Act

(Note In the General Accounting Office's Audit of USAID administration of the PL-480 program issued in January of 1994, it is stated in Chapter 2 6 Conclusions, although WFP is an international organization and is exempt from AID's accountability regulations AID has a fiduciary responsibility to protect U S Government resources by ensuring that proper accountability for U S -provided assistance is maintained This responsibility is recognized in AID's Title II agreement with WFP that gives AID the right to examine WFP records and seek a U S audit of the program ")

Under Grant No 649-0141-G-4002-00 WFP specifically agreed to make its internal audits of WFP Somalia available to USAID To date, it has steadfastly refused to provide copies of these apparently quite devastating audits USAID management needs to continue to pursue its right under the AID-WFP agreement, to audit the WFP

2) The subject audit report dealt with the DA Grant No 649-0141-G-4002-00 but since the grant officer had already initiated action to administratively disapprove WFP vouchers for the \$4 million grant the audit did not make a recommendation with respect to WFP grant compliance and/or recovery of the funds Since completion of the audit USAID Somalia's recommended course of action 'Nairobi 8668) has become bogged down administratively in Washington

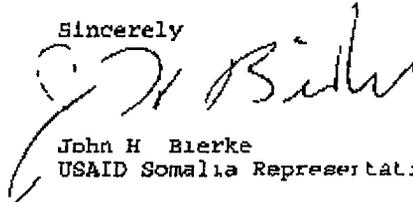
With the closure of USAID Somalia on 30 June 1998 it is likely that this issue may slip through the cracks and WFP may neither be forced to comply with the grant provisions, nor will USAID recover

the possibly millions of dollars for the US taxpayers USAID Somalia has requested (separately) that the Regional I/G office follow up on this matter with a quick audit sometime in FY 1999, to ascertain progress, or lack thereof concerning this issue

3) The Audit report noted that 10,000 MT of food may have disappeared from the port of Djibouti without any WFP explanation. However due to the fact that the audit dealt with USAID Somalia's monitoring capability, rather than BHR/PPP administration of the PL-480 Title II Emergency Program the audit did not make a recommendation on this issue. USAID Somalia is of the opinion that this issue should be included in any upcoming IG/W audits of BHR/PPP.

In conclusion, it is possible that the apparent lack of accountability on the part of WFP Somalia, under three consecutive Country Directors is an isolated phenomenon. However it is strongly recommended that USAID senior management take a much more aggressive stance with respect to WFP accountability, and determine whether the problems observed by USAID Somalia are encountered worldwide or are unique to the Somalia program.

Sincerely



John H. Bierke
USAID Somalia Representative