



# OFFICE OF INSPECTOR GENERAL

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## AUDIT OF USAID/HAITI'S P.L. 480 TITLE II PROGRAMS

AUDIT REPORT NO. 1-521-10-002-P

December 9, 2009

SAN SALVADOR, EL SALVADOR



*Office of Inspector General*

December 9, 2009

**MEMORANDUM**

**TO:** USAID/Haiti Acting Mission Director, Anthony S. Chan

**FROM:** Regional Inspector General, Catherine Trujillo /s/

**SUBJECT:** Audit of USAID/Haiti's P.L. 480 Title II Programs (Report No. 1-521-10-002-P)

This memorandum transmits our final report on the subject audit. We have carefully considered your comments on the draft report in finalizing the audit report and have included your response in appendix II of the report.

The report contains five recommendations intended to improve the effectiveness and implementation of USAID/Haiti's P.L. 480 Title II Programs. Management decisions have been reached on all recommendations. M/CFO/APC will record final action on these recommendations when planned actions have been completed.

I want to express my appreciation for the cooperation and courtesy extended to my staff during the audit.

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# SUMMARY OF RESULTS

USAID engages the food security issue in Haiti through multiyear Public Law (P.L.) 480 Title II food security programs, stabilization programs that generate much-needed disposable income, watershed restoration programs with direct technical assistance for improved agricultural production, financing programs that target rural farmers and cooperatives, health programs, and disaster mitigation programs. USAID/Haiti began a new multiyear P.L. 480 Title II development food aid program in 2008. This 5-year program runs from 2008 to 2012 and totals \$191 million over the life of the program. The program is implemented by three cooperating sponsors: Catholic Relief Services, \$61.7 million; World Vision, \$91 million; and, ACDI/VOCA, \$37.4 million (see page 3).

The audit objective was to determine whether P.L. 480 Title II commodities were adequately protected against loss and diversion. During an inspection of six commodity warehouses and 14 distribution sites, the audit confirmed that commodities were in most cases properly stored and that cooperating sponsors maintained accurate inventory records (see page 4).

However, the audit team did note some areas where program improvements should be made. Specifically, the audit determined that some distribution centers had periodic shortages of commodities and provided reduced rations to beneficiaries (see page 5). Furthermore, a cooperating sponsor had not provided sufficient training to warehouse staff, had not aggressively pursued action against an employee who had stolen commodities, and did not have written policies and procedures for food distribution practices (see page 6). To correct these problems, this report recommends that USAID/Haiti:

- obtain quarterly reports on the percentage of distribution sites that have run out of food during the previous quarter and document agreement on actions to address these shortages (see page 5);
- obtain quarterly reports on the percentage of distribution sites that were not in compliance with approved ration sizes during the previous quarter and document agreement on actions to address these cases (see page 5);
- obtain written evidence that its cooperating sponsor has provided training to the staff at Pwoje Espwa distribution center regarding inventory controls and program policies and procedures (see page 6);
- obtain written evidence that its cooperating sponsor has obtained restitution and taken mission-approved legal action in response to the theft of food from Pwoje Espwa (see page 7); and
- document and verify that its cooperating sponsors (1) have developed a complete beneficiary database and are using it to print lists of eligible beneficiaries prior to each distribution, and (2) have developed and implemented written procedures for food distribution (see page 7).

In written comments, USAID/Haiti concurred with the five recommendations and provided information regarding planned corrective actions. Specifically, the mission agreed to (1) put in place a tracking system to monitor food shortages in distribution centers, identify their causes, and address them properly in a timely manner; (2) collect quarterly data on centers not in compliance with approved ration sizes and actions taken to address these cases; (3) provide training for better inventory control and compliance with program policies and procedures at Pwoje Espwa distribution center; (4) seek judicial action and reimbursement in response to the theft of food from Pwoje Espwa distribution center; and (5) review the existing monitoring procedures with the partners to closely monitor their implementation of a database where full name, starting date, and exit date are registered for each beneficiary category (see page 10).

Based on the mission's response, the audit team believes that a management decision has been reached on all recommendations.

# BACKGROUND

USAID administers Title II of the Food for Peace Program,<sup>1</sup> which authorizes direct donations of U.S. agricultural commodities for emergency relief and development. USAID administers both emergency and nonemergency food aid activities under the Food for Peace program. Haiti's food access problems are the result of weak economic growth, widespread lack of job opportunities, credit constraints, and citizens' weak purchasing power. USAID's current strategy for Haiti states that lack of food availability, lack of access to food because of low incomes, and suboptimal use of available food have become chronic structural problems in Haiti. Poverty is extremely widespread, with an estimated 75 percent of the population living on less than \$2 a day.

These problems were exacerbated by four tropical storms in August and September 2008, which caused major flooding and directly affected 800,000 people out of a population of 9 million, mainly through damage to crops, homes, and roads. Because of these serious problems, USAID's Office of Food for Peace has made Haiti a priority country eligible for new multiyear programming, 1 of only 19 countries worldwide to be so designated.

USAID agreed to donate agricultural commodities and to pay related support and programmatic costs to three cooperating sponsors under transfer authorization awards:

- Catholic Relief Services – award from February 2008 to September 2012 for total estimated program costs of \$61.7 million. As of March 2009, Catholic Relief Services had distributed 5,654 metric tons of commodities.
- World Vision – award from February 2008 to September 2013 for total estimated program costs of \$91 million. As of March 2009, World Vision had distributed 5,256 metric tons of commodities.
- ACDI/VOCA – award from February 2008 to February 2013 for total estimated program costs of \$37.4 million. As of March 2009, ACDI/VOCA had distributed 64 metric tons of commodities. It continues to set up operations and enlist eligible beneficiaries into its program.

## AUDIT OBJECTIVE

As part of its fiscal year 2009 annual audit plan, the Regional Inspector General office in San Salvador, El Salvador, audited USAID/Haiti's P.L. 480 Title II Program to answer the following question:

- Are P.L. 480 Title II commodities adequately protected against loss and diversion?

Appendix I contains a discussion of the audit's scope and methodology.

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<sup>1</sup> The Agricultural Trade Development and Assistance Act of 1954, Public Law 83-480, later renamed the Food for Peace Program.

# AUDIT FINDINGS

## **Are P.L. 480 commodities adequately protected from loss and diversion?**

During an inspection of six commodity warehouses and 14 distribution sites, the audit team confirmed that commodities at these locations were in most cases properly stored and that cooperating sponsors maintained accurate inventory records.

USAID/Haiti staff members collect data on commodity shipments and deliveries through status reports submitted regularly by the coordinating sponsor, and review progress reports regarding program activities and performance. Mission staff review and approve all commodity call forwards, conduct semiweekly meetings with the coordinating sponsors, and have frequent phone and e-mail communications with the implementing partners. The main control over the program is the staff members whose duties include acting as food monitors/inspectors. These monitors randomly inspect food distribution centers and collect information on the handling, storage, inventory, and distribution of the commodities, as well as data on the specific activity the food aid is supporting. Each monitor has an area of expertise and also checks the accomplishment of program objectives in such areas as health, agriculture, social assistance, and education.

The audit inspected five regional commodity warehouses and the program's central commodity warehouse in Port-au-Prince, currently being utilized by all three coordinating sponsors, and found them generally to be organized, clean, and well protected, and to have accurate recordkeeping. The audit also visited 14 distribution sites, including maternal and child health and nutrition sites, school feeding centers, general relief distribution sites, and orphan and HIV patient feeding sites, and identified no major deficiencies.

While commodities were adequately protected from loss or diversion, there are opportunities to improve program operations. Some distribution sites have experienced food shortages and are issuing food rations to beneficiaries that are smaller than the authorized ration sizes. Also, at some distribution sites, controls should be improved. These issues are discussed in the following sections.

## **USAID/Haiti Should Examine Food Availability**

Summary: The P.L. 480 program goals are to combat hunger, malnutrition, and their causes. USAID/Haiti's P.L. 480 program did not always meet important program requirements because its food distribution points did not always have access to sufficient supplies for the population to be served. Furthermore, in several instances reduced rations were provided to the program's beneficiaries. Hurricanes and tropical storms caused significant damage to Haiti's roads and bridges in late 2008, reducing the program's ability to transport commodities in a timely manner. However, better information and planning for contingencies should help maintain the availability of commodities.

The P.L. 480 program goals are to combat hunger, malnutrition, and their causes. USAID/Haiti's P.L. 480 program did not always meet important program requirements because its food distribution points did not always have access to sufficient supplies for the population to be served. Better data regarding supplies should reduce the risk of reduced food availability.

Examples where feeding centers ran out of food or reduced rations include the following:

- A school with 420 enrolled beneficiaries had no lentils or peas from April 2, 2007, to April 14, 2009. The feeding program was suspended during February, March, and early April 2009 because of limited supplies.
- A child feeding center with 30 enrolled beneficiaries was out of vegetable oil, peas/lentils, and other foods during August 2008. Feeding continued with the limited supplies available, but the ration sizes were not adjusted to compensate for the missing foods. From September 1 to October 24, 2008, the center did not provide any feeding services because of a complete lack of commodities.
- A hospital with 50 enrolled beneficiaries was out of some food components for numerous periods from October 2008 to May 2009.
- A clinic with 500 enrolled beneficiaries (pregnant woman) reduced the ration for peas from 2.78 kilograms per month to 1 kilogram per month because of shortages.

According to USAID/Haiti officials, these deficiencies were caused by poor road conditions in the aftermath of the tropical storms in the fall of 2008. In addition, high demand sometimes led centers to distribute commodities to beneficiaries who were not enrolled in the program, causing shortages for enrolled beneficiaries. According to USAID/Haiti officials, problems with food shortages and reduced ration sizes had been discussed within the mission, but officials have not been able to find a solution to the problem other than requesting significant additional food resources for the program over and above the limits of existing agreements.

Episodes of food insecurity reduced the program's effectiveness in improving the health and nutritional status of the target populations. Short rations reduce the program's effectiveness in improving the health and nutritional status of beneficiaries and do not fully contribute to reducing food insecurity in Haiti. To correct this situation, this audit makes the following recommendations:

*Recommendation No. 1: We recommend that USAID/Haiti obtain quarterly reports on the percentage of distribution sites that have run out of food during the previous quarter and document agreement on actions to address these shortages.*

*Recommendation No. 2: We recommend that USAID/Haiti obtain quarterly reports on the percentage of distribution sites that were not in compliance with approved ration sizes during the previous quarter and document agreement on actions to address these cases.*

## USAID/Haiti Should Strengthen Some Commodity Controls

Summary: According to the P.L. 480 Handbook, protection of commodities is necessary to ensure that beneficiaries receive planned assistance. However, at one distribution center, a locally hired commodity warehouse worker was fired for stealing food-for-work commodities, and the new warehouse worker has not been trained in commodity warehouse management. At another distribution center, staff did not have written policies and procedures in place to ensure that eligible beneficiaries received food rations. Weak controls and procedures increase the risk of loss and diversion of P.L. 480 commodities.

According to the P.L. 480 Handbook, it is essential for the USAID mission to establish oversight and monitoring procedures for good food aid management, and to establish an atmosphere of day-to-day consultation and collaboration with cooperating sponsors and other food donors. While cooperating sponsors have primary responsibility for implementing, monitoring, reporting on, and auditing their Title II program activities, commodities, and funds, USAID missions are expected to monitor cooperating sponsor's management of the commodities and use of sales proceeds and grant funds.

At one center (Pwoje Espwa), the previous commodity warehouseman was fired for stealing P.L. 480 food provided under the food-for-work program. While the amounts involved were modest, there was no evidence that the cooperating sponsor was notified of the theft, restitution made, or legal action initiated against the warehouseman. In addition, the current warehouseman has not been trained, and several deficiencies were observed. For example, stock on hand exceeded amounts in the records, the ending balances on the March daily record did not match the opening balances on the April daily record, and no physical inventory was conducted at the end of April.

At another center, an implementing partner in charge of food distribution did not have written procedures for food distributions. Furthermore, the handwritten lists of beneficiaries were not signed, reviewed, or otherwise formally approved by someone other than the person who prepares the list. This makes it difficult to ensure that only selected beneficiaries who have met the requirements and have been inducted into the program receive the nutritional and health support provided by the program.

These weaknesses occurred because USAID and its cooperating sponsors did not fully implement appropriate controls in accordance with the P.L. 480 Handbook. Weak procedures and inaccurate inventory controls over valuable P.L. 480 commodities create a greater risk of losses to spoilage, damage, and theft. To correct this situation, this audit makes the following recommendations.

*Recommendation No. 3: We recommend that USAID/Haiti obtain written evidence that its cooperating sponsor has provided training to the staff at Pwoje Espwa distribution center regarding inventory controls and program policies and procedures.*

*Recommendation No. 4: We recommend that USAID/Haiti obtain written evidence that its cooperating sponsor has obtained restitution and taken mission-approved legal action in response to the theft of food from Pwoje Espwa.*

*Recommendation No. 5: We recommend that USAID/Haiti document and verify that its cooperating sponsors (a) have developed a complete beneficiary database and are using it to print lists of eligible beneficiaries prior to each distribution, and (b) have developed and implemented written procedures for food distribution.*

# EVALUATION OF MANAGEMENT COMMENTS

In written comments, USAID/Haiti concurred with the five recommendations and provided information regarding planned corrective actions. Specifically, the mission agreed to:

- put in place a tracking system to monitor food shortages in distribution centers, identify their causes, and address them properly in a timely manner;
- collect quarterly data on centers not in compliance with approved ration sizes and actions taken to address these cases;
- provided training for better inventory control and compliance with program policies and procedures at Pwoje Espwa distribution center;
- seek judicial action and reimbursement in response to the theft of food from Pwoje Espwa distribution center; and
- review the existing monitoring procedures with the partners to closely monitor their implementation of a database where full name, starting date, and exit date are registered for each beneficiary category.

Based on the mission's response, the Regional Inspector General/San Salvador believes that a management decision has been reached on all five recommendations.

# SCOPE AND METHODOLOGY

## Scope

The Regional Inspector General/San Salvador conducted this performance audit in accordance with generally accepted Government auditing standards. Those standards require that we plan and perform the audit to obtain sufficient, appropriate evidence to provide a reasonable basis for our findings and conclusions based on our audit objectives. We believe that the evidence obtained provides a reasonable basis for our findings and conclusions based on our audit objectives. The purpose of the audit was to determine if the Public Law (P.L.) 480 Title II commodities are adequately protected against loss and diversion.

In planning and performing this audit, we assessed the mission's controls related to its food aid assistance activities. The management controls identified included the mission performance management plan, program progress reports, USAID/Haiti strategy documents, and the mission's fiscal year 2009 self-assessment of management controls as required by the Federal Managers' Financial Integrity Act of 1982.

The audit was conducted in mission and Cooperating Sponsors' offices in various regions of Haiti, from May 5 to May 20, 2009. Our audit primarily focused on achievement of main goals under the Development Assistance Program ending in early 2008 and the follow-on Multi Year Assistance Program from that point through March 2009. Our audit of the protection of commodities generally focused on commodities received to date at the program's central commodity warehouse in Port-au-Prince, as well as at 19 of the program's 496 regional warehouses and distribution sites. Our analysis and conclusions are restricted to the controls in place at those locations visited during the audit.

## Methodology

To determine whether the P.L. 480 Title II commodities were adequately protected against loss and diversion, we interviewed responsible mission and cooperating sponsor personnel and reviewed documentation supporting commodity shipments and distributions. We judgmentally selected a sample of warehouses and distribution sites to include in our audit and validated commodity amounts by conducting inventories at various warehouse locations and comparing our actual inventory counts to records maintained in the warehouse offices records. We inspected the warehouses to determine if commodities were properly stored and protected and observed commodity distributions to beneficiaries during site visits.

# MANAGEMENT COMMENTS

**TO:** Catherine Trujillo, RIG/San Salvador

**FROM:** Anthony S. Chan, Acting Mission Director /s/

**DATE:** November 20, 2009

**SUBJECT:** Mission Response to the Draft RIG Audit Report of USAID/Haiti's P.L. 480 Title II Programs (Report No. 1-521-10-00X-P)

This memorandum represents USAID/Haiti's formal response to the draft RIG audit report of USAID/Haiti P.L. 480 Title II Programs (Report No. 1-521-10-00X-P) to determine if commodities were adequately protected against loss and diversion. USAID/Haiti appreciates the time and effort of the RIG staff in carrying-out this audit and for the professional and cooperative manner in which the audit was conducted.

## **General Comment:**

We agree with all five (5) recommendations provided in the audit report and believe they will enable us to improve the overall management of the P.L. 480 Title II commodities for a greater impact on the vulnerable populations in Haiti.

The auditors identified specific opportunities for USAID/Haiti to strengthen the management of P.L. 480 Title II commodities through the three (3) Cooperating Sponsors activities. All recommended actions are issues that were identified by the Cooperating Sponsors, and resolution is well underway. As requested, action plans and timeframes are developed below in order to implement all the recommendations noted in the report in a timely manner.

## **Recommendation No. 1:**

*We recommend that USAID/Haiti obtain quarterly reports on the percentage of distribution sites that have run out of food during the previous quarter and document agreement on actions to address these shortages.*

## **Planned Action:**

All three MYAP partners will put in place a tracking system to monitor food shortages in distribution centers, identify their causes, and address them properly in a timely manner. In September 2009, CRS Commodity Management staff was trained to ensure a better management of the pipeline at the distribution center level in order to prevent shortages. Consequently, information related to these shortages will be reflected in the MYAP quarterly reports. The first quarterly report will be received in January 2010.

## **Recommendation No. 2:**

*We recommend that USAID/Haiti obtain quarterly reports on the percentage of distribution sites that were not in compliance with approved ration sizes during the previous quarter and document agreement on actions to address these cases.*

***Planned Action:***

The MYAP partners, particularly their commodity management units, will make sure that approved ration sizes are well applied. The Partners' monitoring staff as well as the USAID Field Monitors will ensure that all centers are in compliance with approved ration size. Data on centers not in compliance and actions taken to address these cases will be consolidated and submitted by MYAP partners to USAID/Haiti at the same time with the quarterly report.

The Mission has asked the Cooperating Sponsors to update regularly the beneficiary lists. Since August 2009, CRS has made provision in its Pipeline and Resource Estimate Proposal (PREP) to increase the number of beneficiaries by 1,000 in the education program. The number of centers will not increase in order to ensure that the total number of students enrolled in the schools is served.

***Recommendation No. 3:***

*We recommend that USAID/Haiti obtain written evidence that its cooperating sponsor has provided training to the staff at Pwoje Espwa distribution center regarding inventory controls and program policies and procedures.*

***Planned Action:***

Training has been provided to the previous management committee at the center level. The management committee has just been partially reelected. Refresher training is scheduled for the end of November 2009 for better inventory control and compliance with program policies and procedures.

***Recommendation No. 4:***

*We recommend that USAID/Haiti obtain written evidence that its cooperating sponsor has obtained restitution and taken Mission approved legal action in response to the theft of food from Pwoje Espwa.*

***Planned Action:***

The Warehouse Manager has been fired and the case turned to the judiciary system. CRS sent a reimbursement letter requesting payment to the center on November 20, 2009.

***Recommendation No. 5:***

*We recommend that USAID/Haiti document and verify that its cooperating sponsors (1) have developed a complete beneficiary database and are using it to print lists of eligible*

*beneficiaries prior to each distribution, and (2) have developed and implemented written procedures for food distribution.*

**Planned Action:**

The MYAP partners have in place a database where full name, starting date and exit date are registered for each beneficiary category. This system is the basis for the allocation of the food to the centers and the beneficiaries. It is updated on a monthly basis.

USAID/Haiti will review the existing monitoring procedures with the MYAP partners and will closely monitor their implementation.

In closing, we would like again to express our appreciation for the professional manner in which the audit was conducted. The initiative of listing in advance the documentation needed and the sites that would be visited during the exercise contributed to a smoother implementation of the agenda. Since logistics and security requirements were addressed in advance, the auditors and the USAID/Haiti Team could better focus on discussions, interviews, and sites visits.

Furthermore, the RIG Audit has been a good opportunity for the USAID/Haiti Team and The MYAP partners to receive useful recommendations that will help us improve our services and contribute even more to a good implementation of the P.L. 480 Title II activities and its benefits on the vulnerable populations.

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