OFFICE OF INSPECTOR GENERAL

AUDIT OF USAID'S AGRICULTURAL PROGRAMS IN MALAWI

AUDIT REPORT NO. 4-612-13-010-P
JULY 30, 2013

PRETORIA, SOUTH AFRICA

Office of Inspector General

July 30, 2013

MEMORANDUM

TO:	USAID/Malawi Mission Director, R. Douglass Arbuckle USAID Office of Food for Peace Director, Dina Esposito
FROM:	Regional Inspector General/Pretoria, Robert W. Mason /s/
SUBJECT:	Audit of USAID's Agricultural Programs in Malawi (Report No. 4-612-13-010-P)

This memorandum transmits our final report on the subject audit. We have considered carefully your comments on the draft report and have included them in their entirety (without the attachments) in Appendix II.

The report includes 14 recommendations to strengthen USAID's agricultural programs in Malawi. We acknowledge management decisions on Recommendations 1, 2, 4, 5, 6, 9, 10, 12, 13 and 14, and final action on Recommendations 9 and 10. In accordance with ADS 595.3.1.2, we cannot acknowledge management decisions on Recommendations 3, 7, 8, and 11 until the agreement officer specifies the amount of questioned costs (currently $13,408 ineligible and $2,526,823 unsupported) allowed or disallowed and specifies a target date for collection of any disallowed costs. We disagreed with the management decision on Recommendation 5 because, in our opinion, the nature and extent of the questioned costs and internal control weaknesses identified during the audit warrant a more in-depth financial audit as a reasonable and prudent action. For further details, see pages 18 through 19.

Please have the responsible official provide us within 30 days information on actions planned or taken regarding Recommendations 3, 7, 8, and 11. If the Office of Food for Peace chooses to revise its proposed actions for Recommendation 5, please advise us of this in writing. Finally, please provide the Audit Performance and Compliance Division with the necessary documentation to achieve final actions on Recommendations 1, 2, 4, 5 (if not revised), 6, 12, 13, and 14. Recommendations 9 and 10 are closed upon report issuance.

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

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CONTENTS

Abbreviations

The following abbreviations appear in this report:

ADS	Automated Directives System
FY	fiscal year
MLI-BA	Market Linkages Initiative Bridging Activity
RIG	Regional Inspector General
SPICE	Spice Promotion in Commercial Enterprises Program
WALA	Wellness and Agriculture for Life Advancement Program

SUMMARY OF RESULTS

Rain-fed subsistence agriculture is central to Malawi's economy but is highly susceptible to drought, like the one in 2004 that left more than 4.5 million people in need of food aid to survive. According to USAID/Malawi's Fiscal Year 2013-2017 Country Development Cooperation Strategy, although the situation has improved recently, approximately 1.6 million Malawians, mostly in the southern third of the country, are still unable to obtain enough food to meet their basic needs. Poor rains for one or two seasons could lead to another drought-induced emergency.

To enhance food security and encourage economic growth, USAID/Malawi and the Office of Food for Peace in Washington, D.C., have established several agricultural programs. They align with USAID's food security objectives and the Government of Malawi's strategies to improve agricultural productivity and competitiveness; strengthen nutritional status; and increase resiliency to climate change and natural disasters.

The total estimated cost of USAID's agricultural awards in Malawi that were active as of December 31, 2012, was $113.4 million. The audit focused on the three cooperative agreements summarized in Table 1, representing 73 percent of the portfolio. As of December 31, 2012, total estimated costs for these three programs were $82.4 million, obligations were $43.2 million, and expenditures were $33 million.

Table 1. Audited Programs as of December 31, 2012 (Amounts Unaudited)

Program Name and Description	Implementer(s)	Funding	Implementation Period
Wellness and Agriculture for Life Advancement (WALA)[*]—improve food security for 214,974 chronically food insecure households in southern Malawi.	Catholic Relief Services and eight subrecipients[†]	$80.9 million; obligations of $41.7 million and expenditures of $32.0 million	5/8/2009 – 6/30/2014
Market Linkages Initiative Bridging Activity (MLI-BA)—improve the structure and transparency of commodity trading systems in Malawi.	ACDI/VOCA, a U.S.-based organization that is also a WALA subrecipient	$1.1 million; obligations of $1.1 million and expenditures of $701,305	11/15/2011 – 5/14/2013
Spice Promotion in Commercial Enterprises (SPICE)—increase production, competitiveness, and quality of paprika and bird's eye chilies and link farmers to markets.	Total Land Care, a Malawian organization that is also a WALA subrecipient	$400,000; obligations of $400,000 and expenditures of $332,615	9/1/2009 – 9/30/2013

[*] WALA is funded under Title II of Public Law 480, known as the Food for Peace Act. USAID's Office of Food for Peace manages Title II, under which the U.S. Government donates agricultural commodities to support emergency and development assistance programs.

[†] In fiscal year 2012, five of Catholic Relief Services' subrecipients were U.S.-based organizations—ACDI/VOCA, Africare, Project Concern International, Save the Children Federation Inc., and World Vision—and three were based outside the United States—Chikwawa Diocese, Emmanuel International, and Total Land Care. Save the Children International, based in London, began implementing WALA activities for its U.S. counterpart in November 2012, shortly before the start of the audit.

The Regional Inspector General (RIG)/Pretoria conducted this audit to determine whether USAID's agricultural programs in Malawi were achieving their goals of increasing productivity and competitiveness and enhancing food security. The audit found that these programs were generally achieving their goals and improved beneficiaries' lives and livelihoods. For example:

- Thirty participants of WALA-promoted village savings and loan groups told auditors they used loans from these groups to invest in income-generating activities, pay school fees, or buy agricultural inputs that they could not afford otherwise. At a WALA-supported irrigation site, a farmer said that irrigation enabled him to plant two crop rotations instead of one, providing more food for his family to consume or sell. This farmer also said he helped build the irrigation system under a WALA food-for-work activity and received food in return. Sixteen other individuals who received food rations through WALA said the rations helped them and their families stay healthy and productive.

- At a farmer's association supported by MLI-BA, seven farmers said the warehouse receipts program helped them obtain bank loans by using their stored crops as collateral. The loans enabled them to farm continuously since they could buy seed and fertilizer when they needed it. When prices rose, farmers sold their crops stored at the warehouse, paid off the bank loan, and kept the excess. One farmer said she built a new house and added solar power with the profits she earned with MLI-BA's support. Farmers also appreciated text messages they received from MLI-BA, which provided farming tips and market information that helped them increase productivity and negotiate better prices.

- Twenty-eight farmers in Nkhotakota District told auditors that SPICE taught them how to grow, store, and market higher-quality chilies. With the extra income, farmers paid school fees and made home improvements. Since chilies require fewer inputs than tobacco does, a common cash crop in Malawi, poorer farmers were also able to benefit from the program.

Nevertheless, the audit disclosed some problems:

- Some performance data did not meet USAID's quality standards (page 5). Because data was inadequate, auditors could not evaluate the extent to which the programs' goals were being achieved. Some performance data was not valid because it did not measure what it intended to, and other performance data was not supported by source documentation.

- Internal controls for food aid were weak (page 7), increasing the risk of fraud, waste, and abuse and leading to $15,590 of distributed food aid not being adequately documented.

- One of 11 USAID-supported grain-bulking centers did not meet warehouse management standards (page 9). At this center, about 90 metric tons of shelled peanuts were stored on a concrete slab, where they were at risk of damage or contamination and near termite and rodent infestation.

- Implementers charged time incorrectly to their USAID awards (page 11). U.S. Government regulations require implementers to charge time based on actual hours worked. Instead, some of USAID's implementers charged time based on estimates that did not reflect their actual activity. Accordingly, salary costs of $2,511,233 were unsupported.

- Non-U.S. subrecipients did not meet USAID's audit requirements (page 13). USAID policy requires annual audits of non-U.S. recipients and subrecipients that expend $300,000 or more in their fiscal year under USAID awards. These audits must meet USAID's standards, and the cost of audits that are not in compliance may not be charged to USAID awards. Approximately $5.4 million in expenditures by USAID subrecipients was unaudited. Furthermore, audit costs of $13,408 were incurred for audits that did not meet USAID standards.

- Branding and marking efforts were deficient (page 15). U.S. Government policy requires that all USAID-funded programs, projects, and activities be identified as "American Aid." USAID's implementers in Malawi had branding and marking plans but did not consistently implement them. As a result, Malawians lacked awareness of USAID's sponsorship.

To address these issues and strengthen USAID's agricultural programs in Malawi, the audit recommends that:

1. USAID/Malawi implement a site visit checklist that includes procedures for periodically reviewing source documentation and data collection processes (page 7).

2. USAID/Malawi conduct a new data quality assessment of any WALA performance indicators reported externally and verify that Catholic Relief Services corrects any deficiencies identified (page 7).

3. The Office of Food for Peace determine the allowability of $15,590 in unsupported questioned costs arising from unsupported food aid distributions and recover from Catholic Relief Services any amounts determined to be unallowable (page 8).

4. The Office of Food for Peace implement a plan with milestones to strengthen internal controls over food aid distributed under WALA (page 8).

5. The Office of Food for Peace contract with an independent auditing firm to conduct an audit of WALA's expenditures in Malawi (page 9).

6. USAID/Malawi implement a site visit schedule, including unannounced visits, so that mission staff and partners visit and evaluate all USAID-supported storage facilities regularly (page 11).

7. The Office of Food for Peace determine the allowability of $2,445,808 in unsupported questioned costs arising from unsupported compensation and recover from Catholic Relief Services any amounts determined to be unallowable (page 13).

8. USAID/Malawi determine the allowability of $65,425 in unsupported questioned costs arising from unsupported compensation and recover from Total Land Care any amounts determined to be unallowable (page 13).

9. The Office of Food for Peace verify that Catholic Relief Services corrects the instance of material noncompliance: time sheets not correctly maintained by subrecipients (page 13).

10. USAID/Malawi verify that Total Land Care corrects the instance of material noncompliance: time sheets not correctly maintained (page 13).

11. The Office of Food for Peace determine the allowability of $13,408 in ineligible questioned costs for audits that did not meet USAID's standards and recover from Catholic Relief Services any amount determined to be unallowable (page 15).

12. The Office of Food for Peace verify that Catholic Relief Services corrects the instance of material noncompliance: required audits of its non-U.S. subrecipients under WALA not conducted (page 15).

13. The Office of Food for Peace require Catholic Relief Services to implement a plan with milestones to verify that its non-U.S. subrecipients under WALA conduct required audits in the future (page 15).

14. USAID/Malawi implement a site visit checklist that includes procedures for monitoring compliance with branding and marking requirements (page 16).

Detailed findings appear in the following section, and the scope and methodology appear in Appendix I. Management comments are in Appendix II, and our evaluation of them begins on page 17.

AUDIT FINDINGS

Some Performance Data Did Not Meet Quality Standards

According to USAID's Automated Directives System (ADS) 203.3.11.1, "Data Quality Standards," performance data must meet certain data quality standards to be credible for reporting and useful for performance management. These standards are validity, integrity, precision, reliability, and timeliness. USAID missions, according to ADS 203.3.2.1, are responsible for collecting, maintaining, and reviewing performance data to ensure that it meets these standards. These tasks require regularly reviewing data collection methods, conducting site visits, and performing data quality assessments. In addition, the Government Accountability Office's *Standards for Internal Control in the Federal Government* requires that performance data be substantiated by readily available source documentation.

Despite the importance of data quality in performance management, the audit found that some of USAID/Malawi's performance data (summarized in Appendix III) did not meet data quality standards.

Reported Data Was Not Valid. Agency guidance describes validity as "the extent to which a measure actually represents what we intend to measure." However, some performance indicator data did not meet this threshold and therefore was not credible for reporting.

One example was data on use of new technology, which USAID considers critical to increasing agricultural productivity. Technologies that counted included improved farming practices and innovations in information technology, like disseminating agricultural messages to farmers via cell phone. To track this key aspect of program performance, USAID partners reported that 6,955 individuals applied new technologies or management practices as a result of U.S. Government assistance in fiscal year (FY) 2012. However, neither MLI-BA nor SPICE, which together accounted for 93 percent of this result, calculated the indicator accurately. MLI-BA only counted the number of messages delivered to farmers' cell phones, assuming (without verifying) that the recipient received and applied the new technology or management practice communicated in the message. SPICE officials admitted they did not regularly collect this data, but instead conducted informal surveys and counted farmers who could independently demonstrate certain skills. Neither method accurately captured the number of individuals who actually used the messages to improve productivity, which is what the indicator was to measure.

Two other measures of program performance were the numbers of rural and vulnerable households benefitting directly from U.S. Government interventions (Table 2).

Table 2. WALA Data on Households Benefiting Directly From U.S. Government Interventions, FY 2012 (Unaudited)

Households	WALA Data as % of Results on This Indicator	Reported Number	% of Target	Nonstandard Calculation Method
Rural	99	179,945	61	Applied a ratio to quarterly data
Vulnerable	100	161,951	84	Calculated 90 percent of number of rural households derived above

Although USAID approved specific data collection methods for these indicators, WALA officials said they did not follow this guidance because their subrecipients did not update their database with the required information. Instead, as noted in Table 2, WALA officials applied a ratio derived from an annual survey to quarterly data reported by subrecipients. Any errors in this methodology were compounded by the fact that the data in subrecipients' reports was often unsupported.

Reported Data Was Not Supported With Source Documentation. Despite the requirements in *Standards for Internal Control in the Federal Government*, some performance data was not substantiated with readily available supporting documentation.

One example was data on hectares of land brought under irrigation, which USAID considered an important indicator of adopting new technologies. Catholic Relief Services reported bringing 285 hectares under irrigation in FY 2012; however, subrecipients' annual reports totaled 330 hectares, and none of the four subrecipients visited could provide complete supporting documentation. Likewise, Catholic Relief Services reported that 193 WALA-trained communities had disaster early warning and response systems in place, a number that agreed with subrecipients' annual reports. However, Africare staff members located training registers for only 27 of the 31 communities they reported; Total Land Care could produce training registers for only 22 of 39 reported communities; and Save the Children International could not produce any registers because they had been transferred to a different office, officials said.

Similarly, MLI-BA and SPICE reported providing 15,046 and 4,215 individuals, respectively, with short-term training in FY 2012. MLI-BA's database, however, lacked important information for verification, like dates, participant names, and number of days of training. In addition, MLI-BA managers said 1,679 people in this group had already been reported by WALA at an event the two programs hosted together. SPICE officials could not produce training registers that substantiated the reported number of individuals trained. Furthermore, the available training registers were based on anticipated attendance and were not signed by the participants, making it difficult to verify whether the listed participants actually attended.

These data quality problems arose for several reasons attributed to USAID and its implementing partners. First, USAID/Malawi relied on the data that partners reported without verifying it. Although mission officials performed data quality assessments on WALA, MLI-BA, and SPICE performance indicators, they did not periodically verify data afterward. Mission officials said they did not consider verifying data during site visits, preferring instead to talk with implementers and beneficiaries and observe ongoing activities. The SPICE data quality assessment made recommendations to "design forms for recording training participants" and "document . . . the new technologies and management practices adopted," but USAID did not follow up on the recommendations. Although the WALA assessment found no concerns with data quality, the assessment team visited only two of eight subrecipients and tested only three of nine indicators. The USAID activity manager for WALA said that a new data quality assessment should be conducted since WALA's data collection processes had changed significantly.

Second, USAID implementing partners did not devote enough staff or energy to data monitoring. MLI-BA, for example, only employed a part-time monitoring and evaluation official. Although this individual was responsible for collecting and reviewing data and maintaining the MLI-BA database, she only worked for the program for a few months during the year. For SPICE, field coordinators said they did not press training participants for signatures confirming attendance because there is a cultural reluctance to do so unless a monetary benefit is received. However, the field coordinators had not considered alternate means of verifying attendance, like taking roll, because they thought the register of expected participants was acceptable to USAID.

USAID, the Department of State, and the U.S. Congress rely on performance data to help make budgetary and programming decisions. Since some of USAID/Malawi's performance data did not meet USAID's data quality standards, the data could not provide maximum utility to decision makers. This audit makes no recommendations for MLI-BA, which ended in May 2013, or SPICE, which will end in September 2013. To strengthen the quality of the mission's performance data in general and WALA data specifically, the audit makes the following recommendations.

> ***Recommendation 1.*** *We recommend that USAID/Malawi implement a site visit checklist that includes procedures for periodically reviewing source documentation and data collection processes.*

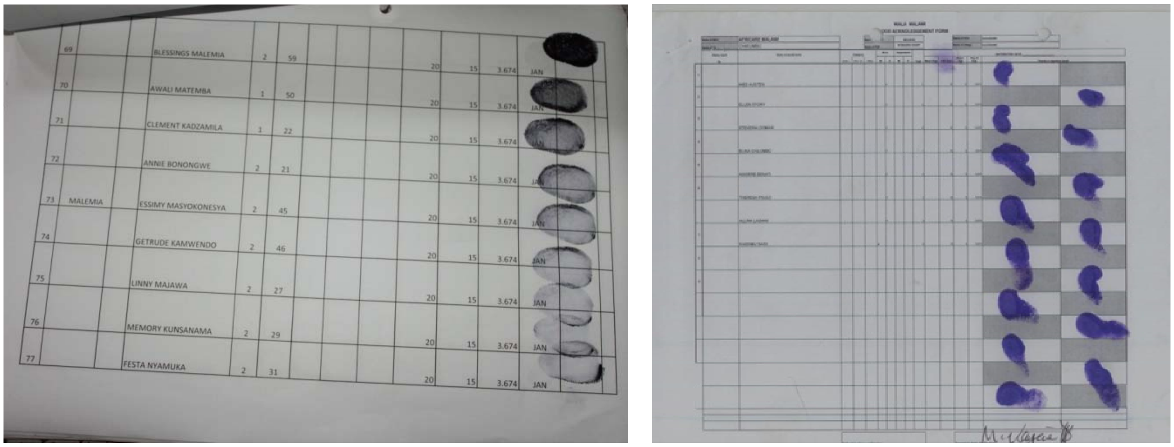
> ***Recommendation 2.*** *We recommend that USAID/Malawi conduct a new data quality assessment of any Wellness and Agriculture for Life Advancement Program performance indicators reported externally and verify that Catholic Relief Services corrects any deficiencies identified.*

Internal Controls for Food Aid Were Weak

Catholic Relief Services, with other development organizations, established the *Generally Accepted Commodity Accountability Principles* to improve the effectiveness and efficiency of food aid. These principles state, "Commodity management organizations should maintain documents and records that accurately reflect all transactions involved in the receipt and disposition of all commodities up to the point where the commodities are issued for distribution or issued for consumption." These principles are consistent with the Government Accountability Office's *Standards for Internal Control in the Federal Government,* which adds that documentation should be readily available. Moreover, Catholic Relief Services developed a commodities management manual and a comprehensive system to track movement and distribution of USAID-funded food aid to the final beneficiary. The manual requires beneficiaries to acknowledge receipt of the food by placing their thumbprint next to their name on a register maintained by the subrecipient.

Nevertheless, the warehouses of four WALA subrecipients had several internal control weaknesses. For example, subrecipients could not readily provide thumbprints for 1,825 of the 10,323 distributions tested on the day of auditor site visits. Subrecipients provided most of this documentation later, but 846 distributions, worth $15,590, were still unsupported. In addition, in at least one instance, an individual other than the beneficiary made thumbprints on behalf of food recipients, even though Catholic Relief Services' policy required the recipients to make the thumbprints themselves after receiving the food.

These discrepancies went undetected because Catholic Relief Services did not provide adequate supervisory review, a central principle of internal control. At one office, supervisors did not review or approve supporting documentation until months after the distribution, preventing timely identification and correction of errors. At other offices, supervisors approved distribution forms without closely reviewing them or following up on irregularities like the thumbprints shown in the following photos. While Catholic Relief Services officials said they monitored warehouses and a portion of food distributions monthly, these visits did not include reviewing supporting documentation or comparing it with inventory distribution records. The USAID activity manager also said he did not verify supporting documentation during his regular visits to subrecipients' offices, warehouses, and activity sites because he spent his time in the field talking with beneficiaries and observing activities.



The thumbprints on the left are those of one villager who confirmed making them for the recipients on the list. The form on the right shows seven more thumbprints than beneficiary names. (Photos taken by RIG/Pretoria in Zomba District, Malawi, February 2013)

Lack of segregation of duties, another critical internal control element, contributed to the discrepancies. One warehouse employee said he handled all food distribution activities, such as preparing the food for delivery, transporting it to the distribution point, monitoring the distribution, and maintaining the supporting documentation. Notably, about 42 percent of distributions tested at this subrecipient's warehouse were unsupported on the day of auditor site visits. Inadequate supervisory oversight exacerbated the risks associated with unsegregated duties. Catholic Relief Services noted that frequent turnover of warehouse staff had affected warehouse operations and required recruiting and training new employees plus using temporary workers to fill gaps in food distribution and monitoring.

Without consistently applied internal controls, the risk of theft or misuse of USAID-funded food commodities increased. USAID/Malawi and the Office of Food for Peace cannot be sure that food commodities worth $15,590 reached beneficiaries as intended because of insufficient documentation. The audit questions this amount in accordance with Office of Management and Budget Circular A-122, Attachment A.2.g, which requires that allowable costs be "adequately documented." An independent audit of WALA, including distribution of food aid, could identify additional unsupported distributions. This audit, therefore, makes the following recommendations.

> ***Recommendation 3.*** *We recommend that the Office of Food for Peace determine the allowability of $15,590 in unsupported questioned costs arising from unsupported food aid distributions and recover from Catholic Relief Services any amounts determined to be unallowable.*
>
> ***Recommendation 4.*** *We recommend that the Office of Food for Peace implement a plan with milestones to strengthen internal controls over food aid distributed under the Wellness and Agriculture for Life Advancement Program.*

Recommendation 5. *We recommend that the Office of Food for Peace contract an independent auditing firm to conduct an audit of the Wellness and Agriculture for Life Advancement Program's expenditures in Malawi.*

Grain-Bulking Center Did Not Meet Warehouse Management Standards

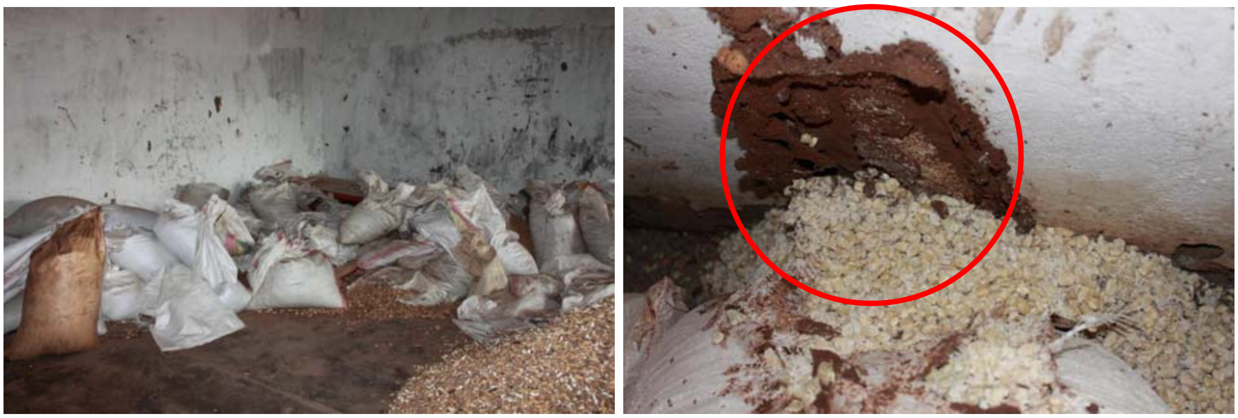
Generally Accepted Commodity Accountability Principles, Principle IV-2, "Storage and Handling," states that "commodity management organizations should establish and use appropriate storage and handling procedures to protect the quality of commodities and guard against undue losses." USAID's Market Linkages Initiative (the predecessor to MLI-BA) developed the *Crop Conditioning Handbook* and the *Staple Crops Storage Handbook* to share best practices with USAID-supported farmers, grain traders, and storage facilities such as grain-bulking centers. These handbooks help ensure that program objectives are achieved without causing unintended harm to consumers.

USAID helped construct 11 grain-bulking centers to link farmers to markets under the Market Linkages Initiative. Under MLI-BA, USAID/Malawi continued supporting these centers with training and technical assistance in postharvest handling and commodities management. In FY 2012, MLI-BA reported that 30,569 metric tons of commodities flowed through these 11 centers, with the Dalitso grain-bulking center contributing more than 55 percent.

Despite USAID support, Dalitso did not meet USAID standards. For example, Dalitso was storing its entire stock of shelled peanuts—estimated by warehouse managers to be about 90 metric tons—in a large pile on the concrete floor (shown below). According to the *Crop Conditioning Handbook,* "[peanuts] should only be stored in bags or drums," noting that shelled peanuts are particularly fragile and easily contaminated.

Here 90 metric tons of peanuts are improperly stored at the USAID-supported Dalitso grain-bulking center. (Photo by RIG/Pretoria, February 2013)

Warehouse managers showed auditors the damaged goods area of the warehouse (pictured below), which was about 12 yards from the pile of shelled peanuts. The warehouse managers pointed out bags of damaged grain that rodents had further damaged and termites had infested.



The pile of loose peanuts was near the damaged goods area (left), where termite nests are visible between the wall and damaged bags (right). (Photos by RIG/Pretoria, February 2013)

USAID/Malawi officials said the other ten MLI-BA-supported centers had shown vast improvement and had even received warehouse certification from Malawi's Agricultural Commodity Exchange (also supported by MLI-BA). Because the Agricultural Commodity Exchange had such high standards for its certified warehouses, USAID/Malawi staff members had confidence that those warehouses also met USAID's standards. Dalitso, on the other hand, chose not to trade through the Agricultural Commodity Exchange. Instead, its managers preferred to sell uncertified, lower-quality commodities to neighboring countries.

At the start of the Market Linkages Initiative, USAID/Malawi assessed the capacity of the selected grain traders before deciding to support them and construct the new grain-bulking centers. Mission officials said Dalitso was a "shining star" at that time and one of the better performers during the initial program. Since MLI-BA was a continuation of that program and targeted existing centers, USAID/Malawi did not complete similar due diligence before continuing support.

Further, USAID/Malawi officials acknowledged that neither they nor ACDI/VOCA had conducted unscheduled visits to Dalitso. In fact, USAID/Malawi staff said they had not visited the Dalitso center since its construction. USAID officials said their site visits generally coincided with visits by high-profile guests and were to warehouses certified by the Agricultural Commodity Exchange. ACDI/VOCA officials said their last visit to Dalitso was in June 2012. This was an announced visit, and ACDI/VOCA officials said they found warehouse conditions acceptable. More-frequent, unannounced site visits might have alerted officials to the substandard conditions and informed management decisions about whether to continue support.

By supporting Dalitso with USAID funding, the U.S. Government associated itself with substandard warehouse management practices that could adversely affect farmers and consumers. For example, the *Staple Crops Storage Handbook* says that loss and deterioration can arise in unsuitable storage areas. Pests, including termites and rodents, can cause severe damage and render food unfit for human consumption.

Aflatoxin, a toxic byproduct of mold that affects peanuts, is another serious concern. It can be extremely harmful—even fatal—to humans and animals. The Centers for Disease Control and

Prevention noted that in Kenya “acute aflatoxin poisoning results in liver failure and death in up to 40 [percent] of cases.” The only way to prevent aflatoxin, according to the *Staple Crops Storage Handbook,* “is to dry the grain [including peanuts] quickly at harvest . . . and to keep the grain in clean bags, in dry conditions and off the ground.”

We make no recommendations pertaining specifically to the Dalitso grain-bulking center since USAID support ended in May 2013. However, USAID will continue to support grain-bulking centers that are certified by the Agriculture Commodity Exchange, unlike Dalitso, under a new Feed the Future initiative. To help ensure that these facilities continue to meet USAID standards, this audit makes the following recommendation.

> ***Recommendation 6.*** *We recommend that USAID/Malawi implement a site visit schedule, including unannounced visits, so mission staff and partners visit and evaluate all USAID-supported storage facilities regularly.*

Implementers Charged Time Incorrectly to Awards

According to Office of Management and Budget Circular A-122, compensation costs are allowable when they are reasonable, allocable, and adequately documented. In practice, this means that salaries and associated compensation can be charged to U.S. Government programs only in proportion to the actual time spent working on them. Regarding documentation, Attachment B, Paragraph 8 m (2)(a), of the circular states that supporting records “must reflect an after-the-fact determination of the actual activity of each employee. Budget estimates (i.e., estimates determined before the services are performed) do not qualify as support for charges to awards.” Part (b) of this section states: “Each report must account for the total activity for which employees are compensated and which is required in fulfillment of their obligations to the organization.” This means that employees must track all hours worked, not just hours worked on USAID-funded projects. These requirements are also applicable to the subrecipients of USAID awards.

Despite these requirements, the audit found that some implementers incorrectly charged time to their USAID-funded awards.

Africare. Time sheets for eight employees showed they consistently charged the same number of hours each day to certain awards. For example, the finance and administration manager’s time sheet showed she charged 90 percent of her time daily to WALA and 10 percent of her time to another USAID award. In addition, the former country director’s time sheet for the pay period ending May 12, 2012, showed he consistently charged 42 percent of his time to USAID-funded awards and the rest to the administrative category, even though an Africare employee said the organization received funding from another donor at that time. Africare’s finance and administration manager explained that, from June 24, 2009, through November 30, 2012, all Africare staff members charged time based on budgeted percentages instead of actual time as required by Circular A-122. Salary costs including associated fringe benefits and indirect costs for all Africare staff members who charged time to WALA from June 24, 2009, through November 30, 2012, totaled $1,947,815.

Save the Children International. Several Save the Children International staff members said they had completed time sheets based on set percentages since the organization started implementing WALA on June 29, 2009. One official’s time sheet for September 2012 showed that each day she charged 90 percent of her time to WALA and 10 percent to a USAID health program, even though she said she had not worked on the latter since July 2012. Her time sheet for October 2012 showed the same daily percentages, with the exception of Fridays, when she charged only 69 percent of her daily time to WALA. Another official said he also charged 90 percent of his time daily to WALA and 10 percent to the other program, but spent more time on the other program than he actually charged. Yet another official's time sheets for November 2012, December 2012, and January 2013 showed he consistently charged 12 percent of his time to WALA and set percentages to ten other programs each pay period. The last official estimated spending about 30 percent of his time on the USAID health program, but he consistently charged only 5 percent to it and the rest to WALA. Salary costs including associated fringe and indirect costs for these four employees from June 29, 2009, through February 15, 2013 (the end of audit fieldwork), totaled $302,963.

Emmanuel International. The country representative of Emmanuel International said staff members initially charged time based on set percentages but began charging time based on actual activity in June 2010. Salary costs including associated fringe costs for this period (excluding the country director's salary) totaled $179,119. While time sheets showed staff charging actual time, the country representative himself was only tracking the hours he spent on USAID-funded projects (usually less than 8 hours a day) and not recording the number of hours spent on other projects, such as those funded by the World Food Programme. This meant that his remaining time was unaccounted for, contrary to Circular A-122. Salary costs for the country director from June 24, 2009, through February 15, 2013, totaled $15,911.

Total Land Care. At Total Land Care's main office in Lilongwe, some staff members working on multiple projects charged time based on set percentages. For example, one official said she spends 30 percent of her time on SPICE, but she charged 100 percent of her time to another USAID award. This was reflected in her time sheets. Salary costs for this official from February 1, 2010 (when she joined Total Land Care), through February 15, 2013, totaled $65,425.

These instances of material noncompliance occurred because implementers did not understand, and in some cases chose not to follow, U.S. Government regulations regarding documentation of compensation costs. For instance, although one subrecipient's time sheets were to reflect "a responsible estimate of the actual work performed by the employee," staff members still recorded—and supervisors approved—set percentages. Since the percentages were included in the annual WALA budgets that Catholic Relief Services approved, some officials said they thought they should use those percentages to charge time. One official further explained that award size also affected time allocation. This official claimed that the budgets of small projects did not allow for staff salaries to be charged; consequently, staff members charged more time to bigger projects like WALA. This type of cost shifting is expressly prohibited by Circular A-122.[*]

The WALA chief of party said a Catholic Relief Services audit from March 2012 had also raised this issue. He circulated an e-mail to all subrecipients in May 2012 clearly articulating USAID's requirements for keeping time based on actual work performed in accordance with Circular A-122 and raised the issue again at subrecipient meetings in June 2012. Nevertheless, some

[*] Attachment A, Section B.1, states: "Costs identified specifically with awards are direct costs of the awards and are to be assigned directly thereto. Costs identified specifically with other final cost objectives of the organization are direct costs of those objectives and are not to be assigned to other awards directly or indirectly."

subrecipient staff continued to charge time incorrectly. In addition, though Total Land Care developed time sheets as a special preaward condition of SPICE, the USAID manager was unfamiliar with the preaward conditions and did not review whether staff actually used the time sheets. Similarly, USAID managers for WALA did not review Catholic Relief Services' or subrecipients' time sheets as part of their site visits.

As a result, partners may have overcharged USAID, leaving less funding available to achieve program objectives. In addition to the recommendations listed below, Recommendation 5 on page 9 will encompass a review of compliance with Circular A-122 requirements for supporting compensation costs charged to USAID awards.

> ***Recommendation 7.*** *We recommend that the Office of Food for Peace determine the allowability of $2,445,808 in unsupported questioned costs arising from unsupported compensation and recover from Catholic Relief Services any amounts determined to be unallowable.*

> ***Recommendation 8.*** *We recommend that USAID/Malawi determine the allowability of $65,425 in unsupported questioned costs arising from unsupported compensation and recover from Total Land Care any amounts determined to be unallowable.*

> ***Recommendation 9.*** *We recommend that the Office of Food for Peace verify that Catholic Relief Services corrects the instance of material noncompliance: time sheets not correctly maintained by subrecipients.*

> ***Recommendation 10.*** *We recommend that USAID/Malawi verify that Total Land Care corrects the instance of material noncompliance: time sheets not correctly maintained.*

Non-U.S. Subrecipients Did Not Meet Audit Requirements

ADS 591.3.1.1 states that U.S.-based nonprofit organizations that are prime recipients of USAID funding must ensure that their foreign nonprofit subrecipients have annual audits performed as required. According to this section, USAID is not responsible for directly monitoring subrecipients since the Agency's legal relationship is with the prime recipient. ADS 591.3.2.1a requires annual audits of non-U.S. recipients and subrecipients that expend $300,000 or more in USAID awards in their fiscal year. Furthermore, independent auditors performing these audits must adhere to the Office of Inspector General's *Guidelines for Financial Audits Contracted by Foreign Recipients,* which specifies audit procedures and reporting requirements applicable to USAID awards. Section 1.18 prohibits recipients from charging to USAID awards costs of audits that do not comply with the guidelines.

These requirements were incorporated in the WALA cooperative agreement between USAID and Catholic Relief Services and in the subawards between Catholic Relief Services and its subrecipients. Office of Management and Budget Circular A-133, Section 400(d), also imposes responsibilities on U.S.-based nonprofit organizations like Catholic Relief Services to monitor their subrecipients' compliance with federal laws and regulations. However, Catholic Relief Services' three non-U.S. subrecipients in FY 2012—Chikwawa Diocese, Emmanuel International, and Total Land Care—did not have required annual audits conducted.

Chikwawa Diocese. Chikwawa Diocese completed two audits for the years ended June 30, 2010, and June 30, 2011, respectively. These audits together cost $13,408 and covered expenditures under WALA of $1,116,400, but were not done in accordance with the guidelines. Although Section 1.13 of the guidelines and ADS 595.3.2.1 state that audits must be conducted in accordance with *U.S. Government Auditing Standards*, Chikwawa Diocese auditors followed international auditing standards instead. In addition, expenditures of $504,573 through June 30, 2012, remained unaudited.

Emmanuel International. Emmanuel International officials said they contracted an audit that had not been completed for "technical reasons"—problems with the audit firm and delays in receiving approval from USAID to use the audit firm they selected. Neither USAID nor RIG/Pretoria had received this request from Emmanuel International directly or from Catholic Relief Services on their behalf. Emmanuel International expended approximately $2.1 million in U.S. Government funds under WALA from the start of the program to September 30, 2012, the end of the organization's last fiscal year that required an audit.

Total Land Care. Total Land Care implemented multiple programs for USAID and should have captured all USAID funding under a single audit in accordance with Section 1.22 of the guidelines. Total Land Care completed separate FY 2010 audits for SPICE and another USAID program and a joint audit for these programs in FY 2011; however, none of the funds that Total Land Care expended as a subrecipient under WALA was audited. Total Land Care expended approximately $1.7 million in U.S. Government funds under WALA from the start of the program to September 30, 2012, the end of the organization's last fiscal year that required an audit.

Although Catholic Relief Services was responsible for ensuring that its subrecipients had annual audits, officials in Blantyre admitted to being "hazy" on audit requirements and not monitoring whether subrecipients were completing required audits. Officials at Catholic Relief Services' country office in Lilongwe were unaware of this issue and were concerned that Catholic Relief Services' most recent audit did not find that subrecipient audits had not been completed.

Staff turnover at Catholic Relief Services, where oversight responsibilities were frequently transferred among staff members, contributed to insufficient auditing. For instance, one official explained that he had taken on the responsibilities of a recently departed deputy chief of party. While this official was familiar with the Chikwawa Diocese audit report from 2011, he did not know of the one from 2010 or about Total Land Care's audits because Total Land Care had been under the other individual's purview.

Annual audits of subrecipients are necessary to ensure accountability for USAID funds. Without these audits conducted in accordance with the guidelines, USAID lacked assurance that WALA subrecipients properly used, managed, and accounted for expenditures of approximately $5.4 million. Ensuring that these audits were conducted was the responsibility of Catholic Relief Services. Furthermore, the Inspector General Act of 1978, Public Law 95-452, as amended, requires Office of Inspector General to assure that work performed by nonfederal auditors complies with *U.S. Government Auditing Standards*. Consequently, this audit questions the cost of the Chikwawa Diocese audits not conducted in accordance with these standards and makes several additional recommendations to ensure accountability for foreign assistance funds provided by American taxpayers.

__Recommendation 11.__ We recommend that the USAID Office of Food for Peace determine the allowability of $13,408 in ineligible questioned costs for audits that did not meet USAID's standards and recover from Catholic Relief Services any amount determined to be unallowable.

__Recommendation 12.__ We recommend that the USAID Office of Food for Peace verify that Catholic Relief Services corrects the instance of material noncompliance: required audits of its non-U.S. subrecipients under the Wellness and Agriculture for Life Advancement Program not conducted.

__Recommendation 13.__ We recommend that the USAID Office of Food for Peace require Catholic Relief Services to implement a plan with milestones to verify that its non-U.S. subrecipients under the Wellness and Agriculture for Life Advancement Program conduct required audits in the future.

Branding and Marking Efforts Were Deficient

The Foreign Assistance Act of 1961, as amended, requires that all USAID-funded programs, projects, and activities be identified as "American Aid." This requirement is further outlined in ADS 320 "Branding and Marking," which requires that program materials be marked in order to communicate that the assistance is from the American people. ADS 320 also states that USAID officials are responsible for monitoring the effective implementation of recipients' branding strategy and marking plans.

Although WALA, MLI-BA, and SPICE had branding strategies and marking plans, auditors observed instances in which branding and marking were deficient, including the following:

- One of two grain-bulking centers visited that had been constructed with USAID funding during the initial Market Linkages Initiative was not prominently marked with the USAID logo as required. ACDI/VOCA also provided the centers with scales (shown below) and other equipment but did not brand them.

This scale, provided under MLI-BA, was not branded. Behind the scale is a sign that should have been displayed outside the facility to indicate USAID sponsorship. (Photo by RIG/Pretoria near Lilongwe, Malawi, in February 2013)

- Permanent demonstration plots under SPICE were not marked with signs containing the USAID logo.

- Ration cards used by two WALA subrecipients displayed no marking that would indicate USAID involvement in the program.

- Enumerators conducting household surveys for WALA did not mention USAID's sponsorship of the program to beneficiaries.

These deficiencies occurred for several reasons. Catholic Relief Services explained that under WALA it might not have branded certain items because it had followed the branding and marking practices of the preceding project. The MLI-BA chief of party, who assumed that role midway through the program, said she was not familiar with the branding strategy and marking plan. Furthermore, neither the agreement officer's representative nor the activity manager was familiar with MLI-BA's approved branding strategy and making plan and therefore could not provide adequate oversight. SPICE officials, on the other hand, cited potential theft of signage as a reason for not erecting signs in demonstration plots.

Moreover, USAID officials did not adequately monitor compliance with branding and marking requirements. Some agreement officer's representatives and activity managers had only conducted one or two site visits annually, and some project sites had never been visited. Agreement officer's representatives said long distances, flooded roads, time constraints, and other responsibilities prevented them from conducting more site visits. Mission officials agreed that a site visit checklist would also help them monitor compliance with branding and marking requirements.

Noncompliance with USAID branding and marking requirements denies the U.S. Government and the American people the maximum public diplomacy benefits from their assistance to Malawi. Notably, out of the 52 people interviewed during site visits, only 10 knew that USAID was the program's sponsor—37 did not know USAID at all, and 5 had heard of USAID but did not associate it with the program. Consequently, this audit makes the following recommendation.

> ***Recommendation 14.*** *We recommend that USAID/Malawi implement a site visit checklist that includes procedures for monitoring compliance with branding and marking requirements.*

EVALUATION OF MANAGEMENT COMMENTS

In its comments on the draft report and subsequent communication, USAID/Malawi and the Office of Food for Peace agreed with 13 of the report's 14 recommendations. The Office of Food for Peace disagreed with Recommendation 5.

After evaluating management comments, subsequent communication, and the supporting documentation provided, we acknowledge management decisions on Recommendations 1, 2, 4, 5, 6, 9, 10, 12, 13, and 14 and final action on Recommendations 9 and 10. Recommendations 3, 7, 8, and 11, involving a determination on the allowability of various questioned costs, remain open pending a final determination by the responsible agreement officer. Our evaluation of management comments follows.

Recommendation 1. USAID/Malawi agreed to implement a site visit checklist that will include procedures for periodically reviewing source documentation and data collection processes. The mission's Program/Project Development and Analysis Office, in collaboration with the Office of Food for Peace, expects to complete the checklist by August 31, 2013. Therefore, we acknowledge that the mission made a management decision on Recommendation 1.

Recommendation 2. USAID/Malawi agreed to conduct a new data quality assessment of any WALA performance indicators reported externally and verify that Catholic Relief Services corrects identified deficiencies. According to subsequent correspondence, these actions have a February 28, 2014, target date for completion. As a result, we acknowledge that the mission made a management decision on Recommendation 2.

Recommendation 3. The Office of Food for Peace agreed with the recommendation and stated that USAID/Malawi's Food for Peace officer verified that all food was distributed and that the $15,590 in unsupported questioned costs should be allowed. However, ADS 595.3.1.2.a requires that the contract or agreement officer determine the allowability of questioned costs. It is unclear from management comments whether the responsible agreement officer made the decision on allowability. As a result, this recommendation remains without a management decision pending a written determination by the responsible agreement officer.

Recommendation 4. The Office of Food for Peace agreed to implement a plan with milestones to strengthen internal controls over food aid distributed under WALA. The plan includes five measures to strengthen internal controls and is expected to be completed by September 30, 2013. As a result, we acknowledge that the Office of Food for Peace made a management decision on Recommendation 5.

Recommendation 5. The Office of Food for Peace disagreed with and made a management decision not to contract for an audit of WALA expenses. Office comments stated that the mission's Food for Peace officer verified the food distribution in question, that the final program evaluation will include the review of financial management, and that the small value of the commodities questioned in the report relative to the overall program size did not justify an audit.

We acknowledge but disagree with this management decision. The recommendation was not to verify only those food aid distributions the auditors questioned during their site visits; rather, given the nature and extent of the internal control weaknesses identified, it was to examine a larger sample of such distributions for compliance with agreement terms and applicable regulations. Moreover, the other instances of noncompliance and associated questioned costs identified on pages 11 through 14 warrant a financial audit as a reasonable and prudent action. Although the planned final evaluation contemplates some financial management review, in our opinion this would lack the rigor of a financial audit contracted by USAID and conducted in accordance with generally accepted government auditing standards.

Recommendation 6. USAID/Malawi agreed to implement a site visit schedule and conduct unscheduled visits to USAID-supported storage facilities for inspection and evaluation. The mission has conducted unscheduled visits using a checklist it developed for inspecting storage facilities. In subsequent correspondence, the mission stated that the site visit schedule should be completed by August 31, 2013. Therefore, we acknowledge that the mission made a management decision on Recommendation 6.

Recommendation 7. The comments of the Office of Food for Peace stated that its staff are currently working with the mission and Catholic Relief Services on this recommendation. We will acknowledge a management decision when the responsible agreement officer makes a determination on the allowability of questioned costs; specifies the amount disallowed, if any; and sets a target date for collecting any disallowed amounts.

Recommendation 8. USAID/Malawi officials wrote that they are awaiting supporting documentation from Total Land Care that will enable the mission to determine the allowability of questioned costs. We will acknowledge a management decision on this recommendation when the responsible agreement officer makes a determination on the allowability of questioned costs; specifies the amount disallowed, if any; and sets a target date for collecting any disallowed amounts.

Recommendation 9. The Office of Food for Peace agreed with the recommendation and stated that staff verified that Catholic Relief Services corrected the instances of material noncompliance related to time sheets maintained by its subrecipients. After reviewing management comments and the supporting documentation provided, we acknowledge the management decision and final action on Recommendation 9.

Recommendation 10. USAID/Malawi agreed and reviewed a sample of Total Land Care staff time sheets to verify that hours were correctly charged based on actual work performed. After reviewing management comments and the supporting documentation provided, we acknowledge the management decision and final action on Recommendation 10.

Recommendation 11. The Office of Food for Peace agreed to determine the allowability of $13,408 in ineligible costs for audits conducted in 2010 and 2011 that did not meet USAID standards and recover from Catholic Relief Services any amount determined to be unallowable. Management stated that the audit firm has agreed to redo the audits at no extra cost to the program. Although this is a reasonable response, ADS 595.3.1.2.a requires that contract or agreement officers determine the allowability of questioned costs in questioned cost recommendations. It is unclear from management's comments whether the responsible agreement officer has made such a determination and concurs with the proposed action. Consequently, this recommendation remains without a management decision pending a written response from the responsible agreement officer regarding the allowability of questioned costs and the validity of the proposed action in lieu of collecting any disallowed amounts.

Recommendation 12. The Office of Food for Peace agreed to verify that required audits of Catholic Relief Services' non-U.S. subrecipients under WALA are conducted. Subsequent correspondence indicated that the office expects all required audits to be completed by October 31, 2013. As a result, we acknowledge that the Office of Food for Peace made a management decision on Recommendation 12.

Recommendation 13. The Office of Food for Peace agreed to require Catholic Relief Services to implement a plan with milestones so that non-U.S. subrecipients under WALA conduct required audits. In May 2013, the Catholic Relief Services implemented a monitoring checklist that includes a section on audits. Subsequent correspondence indicated that the full plan with milestones would be completed by August 31, 2013. Therefore, we acknowledge that the Office of Food for Peace made a management decision on Recommendation 13.

Recommendation 14. USAID/Malawi agreed to develop a site visit checklist that includes procedures for monitoring compliance with branding and marking requirements. USAID/Malawi's Program/Project Development and Analysis Office expects to complete a site visit checklist that includes a component on branding and marking by August 31, 2013. We acknowledge that the mission made a management decision on Recommendation 14.

SCOPE AND METHODOLOGY

Scope

RIG/Pretoria 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 in accordance with our audit objective. We believe the evidence obtained provides that reasonable basis.

The objective of the audit was to determine whether USAID's agricultural programs in Malawi were achieving their main goals of increasing productivity and competitiveness and enhancing food security. We obtained documentation from USAID/Malawi on all active programs in the agricultural portfolio as of December 31, 2012, and judgmentally selected programs for audit based on their relevance to the audit objective, funding amounts, and length of time remaining in the program.

Accordingly, the audit reviewed three of the mission's agricultural programs: WALA, implemented by Catholic Relief Services and its eight subrecipients; MLI-BA, implemented by ACDI/VOCA; and SPICE, implemented by Total Land Care. Total estimated costs for these programs were $82.4 million, representing about 73 percent of the $113 million awarded for agricultural programs. The audit scope excluded the mission's new Feed the Future initiative, the Integrating Nutrition in Value Chains Program, because implementation began only in late December 2012, and the audit focused on activities implemented in FY 2012. As of December 31, 2012, obligations and expenditures for the three programs totaled $43.2 million and $33 million, respectively.

In planning and performing the audit, we assessed the significant internal controls used by USAID/Malawi and the Office of Food for Peace to monitor program activities, including monitoring and evaluation plans, performance management plans, and progress and financial reports. We also reviewed USAID/Malawi's Federal Managers' Financial Integrity Act report for FY 2012 and prior audit reports to identify internal control and other issues that could be relevant to the current audit.

We performed the audit in Malawi from January 28 through February 15, 2013. We conducted fieldwork at USAID/Malawi in Lilongwe and at implementing partner and subrecipient offices, warehouses, and selected project sites in Lilongwe, Blantyre, Nsanje, Mulanje, Zomba, and Nkhotakota.

Methodology

To answer the audit objective, we reviewed program documentation, including cooperative agreements and progress reports, and corroborated information with interviews and site visits. We interviewed USAID/Malawi officials, the Office of Food for Peace agreement officer's representative, staff of implementing partners and selected subrecipients, and program beneficiaries. Site visits included five WALA-supported warehouses, demonstration plots for WALA (one) and SPICE (two), and three MLI-BA-supported grain-bulking centers (two of which USAID constructed under the Market Linkages Initiative). During site visits, we assessed compliance with branding and marking plans and spoke with beneficiaries to ascertain their views of program effects and their awareness of USAID. The key factors for selecting locations for site visits were the types of activities implemented, accessibility, and frequency of USAID visits.

To validate performance data, we judgmentally selected a sample of performance indicators for testing based on relevance to the programs' main goals (Appendix III). For selected indicators, we examined data collection methodologies and compared annual progress reports with supporting documentation at the partners' offices. For WALA indicators, this included tracing performance data from Catholic Relief Services' annual report to the annual reports of its subrecipients and to the source documentation maintained at subrecipients' offices. For MLI-BA and SPICE indicators, we traced reported results to the partners' databases and tested a limited sample of source documentation in the field. Since these samples were judgmentally selected, the results cannot be projected to the population from which they were drawn.

To verify internal controls over food aid, we reviewed documentation showing the amount of food that subrecipients reported distributing in December 2012. We also reviewed documentation from one November 2012 food-for-work project because that subrecipient had not distributed any food-for-work rations in December 2012. On the day of site visits, we counted the beneficiary thumbprints that corresponded to the distributions in our sample. We considered the number of unsupported distributions to be the difference between the number of rations distributed and the number of beneficiaries that acknowledged receiving those rations. After audit fieldwork, Catholic Relief Services provided some supporting documentation that warehouse staff had not been able to provide on the day of our site visits. To verify whether the distributed food reached the intended beneficiaries, we judgmentally selected names from the distribution list and spoke with those individuals in their communities. Each beneficiary confirmed receiving the food. We also conducted physical inventory counts on the day of our site visits, noting no discrepancies with recorded inventory levels.

During routine interviews, we learned that some implementers had not maintained time sheets correctly. We asked staff members how they recorded time, and tested their responses by reviewing a sample of time sheets. To calculate questioned costs for this finding, we obtained actual salary expenditures from implementing partners for the period that staff members acknowledged charging time incorrectly. This amount included expenditures for employees we confirmed had charged time incorrectly and for others who interviewees indicated had also charged time incorrectly, since they used the same timekeeping methods. We applied the specified indirect cost and fringe benefit rates in the recipients' approved annual budgets to calculate those additional costs.

Similarly, through interviews we found that three non-U.S.-based WALA subrecipients had not completed annual audits as required. We discussed this oversight with USAID managers and implementing partner staff to understand why it had occurred. Questioned costs for Chikwawa Diocese are the costs of both audit reports, which we obtained from Catholic Relief Services.

MANAGEMENT COMMENTS

USAID | MALAWI
FROM THE AMERICAN PEOPLE

DRAFT AUDIT REPORT NO. 4-612-013-XXX-P
MAY 17, 2013

To: Regional Inspector General/Pretoria, Robert Mason

From: USAID/Malawi, Mission Director, R. Douglass Arbuckle /s/
Director, Food for Peace, Dina Esposito /s/

Date: June 24, 2013

SUBJECT: **Mission and Food for Peace response to the draft audit report of USAID/Malawi's agriculture programs (Report No. 4-612-13-XXX-P)**

This memorandum transmits our comments on the draft report on the subject audit as requested in your memorandum of May 17, 2013. Our comments are framed around the six recommendations for USAID/Malawi, as well as eight recommendations for USAID/Food for Peace, concerning performance data, internal controls for food aid, USAID-supported storage facilities, timesheets of implementing partner staff, audit requirements of non-U.S. recipients, and branding and marking. We have clearly stated our position on each recommendation with detailed explanation provided if needed.

Recommendation No. 1: We recommend that USAID/Malawi implement a site visit checklist that includes procedures for periodically reviewing source documentation and data collection processes.

USAID/Malawi concurs with this recommendation. The Program/Project Development and Analysis (PDA) Office at the Mission is currently developing a site visit checklist, which will include input from the USAID Food for Peace Office (FFP) specifically on Title II monitoring. PDA expects to finalize the site visit checklist no later than August 31, 2013.

Recommendation No. 2: We recommend that USAID/Malawi a) conduct a new data quality assessment of any Wellness and Agriculture for Life Advancement Program performance indicators reported externally; and b) verify that Catholic Relief Services correct any deficiencies identified.

USAID/Malawi concurs with this recommendation. The original data quality assessment (DQA) for the Wellness and Agriculture for Life Advancement (WALA) Program was conducted between December 2010 and January 2011. Since that time, a number of changes in reporting have taken place. In addition, WALA will be due for another DQA later this year per ADS requirements. The PDA office will conduct a Mission-wide DQA for all activities in September 2013, which will include WALA. PDA will train and guide Agreement Officer Representatives (AORs) and Contract Officer Representatives (CORs) and Activity Managers during this exercise. The Mission plans to share the DQA with the Office of Inspector General (OIG) in December 2013. USAID/Malawi will ensure that WALA and other Mission activities correct any deficiencies identified in data quality.

Recommendation No. 3: We recommend that the USAID Office of Food for Peace determine the allowability of $15,590 in unsupported questioned costs (arising from unsupported food aid distributions) and recover from Catholic Relief Services any amounts determined to be unallowable.

FFP concurs with this recommendation and confirms that Catholic Relief Services (CRS) has provided relevant and corrected documents to show that the food in question was distributed to the intended beneficiaries. The records include food delivery to sites, waybills, beneficiary selection lists, work attendance registers, beneficiary food receipt acknowledgement forms, and individual ration cards.

On June 11-12, 2013, the Mission's FFP Officer conducted a verification exercise of food distribution at Africare, which is one of the CRS subrecipients that the OIG observed inadequacies in records. The exercise involved reviewing all food distribution documents and randomly verifying beneficiaries. The samples were taken from supplementary feeding, food for work, and safety net feeding categories for further field-level physical verification that these recipients received food aid. The FFP Officer's report with details is presented as Attachment 1. The exercise concluded that Africare distributed food to all beneficiaries in December 2012 and that the subrecipient is strictly following food aid distribution guidelines.

Based on documents provided by CRS and Africare and verification by the Food for Peace Officer, FFP has allowed the cost of $15,590 and request that the OIG close this recommendation.

Recommendation No. 4: We recommend that the USAID Office of Food for Peace implement a plan, with milestones, to strengthen internal controls over food aid distributed under the Wellness and Agriculture for Life Advancement program.

FFP concurs with the recommendation and is working with USAID/Malawi on the following measures to strengthen internal controls for WALA food aid distribution:

1. Review WALA commodity management system documents and ensure that the systems are elaborate, contain strict internal controls, and clearly define roles and responsibilities of each staff member. The FFP AOR and the Mission's FFP Officer jointly reviewed WALA commodity management system documents in May 2013 and are satisfied with the program's existing internal control measures. CRS has since circulated the reviewed documents to its sub-recipients for immediate implementation. The commodity management systems documents are presented in Attachments 2a, 2b, and 3c.

2. High staff turnover has contributed to unsatisfactory record keeping on the part of sub-recipients. While all vacant positions have been filled as of May 2013, FFP will follow up with CRS to ensure that all staff vacancies in sub-recipient food commodity management teams are filled. CRS is planning to conduct a staff retention study that will seek to provide solutions to high staff turnover. However, FFP notes that high staff turnover is not peculiar to WALA and that all donor-funded programs in Malawi experience this phenomenon especially towards the close of their activities.

3. Work with CRS to ensure that it conducts refresher training for all food aid commodity staff in commodity handling and management, record keeping, and commodity tracking by the end of June 2013. Since the audit, CRS held a training session for the Africare food commodity management team from April 8-12, 2013. Attachment 3 is the training report. CRS also held an onsite training cross visit for all consortium partners from May 6-9, 2013 that is outlined in Attachment 4. CRS plans to hold a consortium-wide training in food commodity management at the end of July 2013 (Attachment 5).

4. Increase the number of FFP staff at the Mission from one to three by the end of September 2013. The increase in staff will provide additional oversight on food commodity management. A direct hire FFP Officer will join the Mission in mid-August 2013. The recruitment process for the Food Security Monitoring Specialist is in advanced stages and is expected to be completed by the end of September 2013. Attachment 6 is the advertisement for this recruitment.

5. FFP has increased support to the Mission, most notably through funds for the recruitment of a Food Security Monitoring Specialist. With increased staffing, USAID/Malawi with support from FFP Washington and the Southern Africa Regional Mission will increase oversight on food commodity management and overall program implementation. This will include deploying the Pretoria-based FFP Regional Commodity Specialist to Malawi to review

progress in implementing the action plan to strengthen internal controls over distributed food aid. This will be completed by September 2013. Other support includes an increase in the number of monitoring visits to Malawi, conference calls between FFP and the Mission to discuss program management, and the number of written reports on overall program management.

Recommendation No. 5: We recommend that the USAID Office of Food for Peace contract an independent auditing firm to conduct an audit of the Wellness and Agriculture for Life Advancement Program's expenditures in Malawi.

FFP doesn't concur with this recommendation. FFP believes that the basis on which this recommendation was made is adequately addressed in the response to Recommendation No. 4. The Mission's FFP Officer has verified the food distribution that the OIG questioned and FFP has allowed the $15,590 in dispute, which was the major concern due to inadequate supporting documentation provided by Africare. FFP believes that the value of the commodity of concern relative to the entire value of the program doesn't justify an expenditure audit.

As WALA enters its final year of implementation, FFP and CRS are currently preparing a final evaluation of the program. The evaluation statement of work includes a component of financial management review. FFP feels that the evaluation would inform USAID of any financial irregularities.

Based on the above, FFP requests the OIG to reconsider this recommendation for an expenditure audit and revise the recommendation accordingly.

Recommendation No. 6: We recommend that USAID/Malawi implement a site visit schedule, including unannounced visits, to ensure that all USAID-supported storage facilities are regularly visited and evaluated by Mission staff and implementing partners.

USAID/Malawi concurs with this recommendation. For the duration of the Market Linkages Initiative-Bridging Activity (MLI-BA), which ends in September 2013, the USAID/Malawi AOR and Activity Manager have developed a monthly site visit schedule to grain bulking center (GBC) partners. In addition, the implementer, ACDI/VOCA, engaged a warehouse management specialist to conduct refresher training on storage management with all 11 GBC partners and developed a warehouse inspection checklist that acts as a guide to rate partner compliance to storage standards (see Attachment 7.) The checklist has already been used on five of the 11 GBC partners during unannounced visits by the USAID/Malawi Activity Manager. Since the audit, ACDI/VOCA has adopted its own monthly inspection schedule covering all partners.

During an unannounced visit in May 2013, Dalitso GBC was found to be non-compliant with proper storage management standards. USAID/Malawi and ACDI/VOCA have since dropped Dalitso as a beneficiary under MLI-BA.

Based on the above actions, USAID/Malawi requests that the OIG close this recommendation.

Recommendation No. 7: We recommend that the USAID Office of Food for Peace determine the allowability of $2,445,808 in unsupported questioned costs (arising from unsupported compensation) and recover from Catholic Relief Services any amounts determined to be unallowable.

FFP is working with the Mission to determine the allowability of $2,445,808 in unsupported costs. Significant progress has been made as detailed below with supporting documents. After CRS submits all documents at the end of June 2013, the Mission's Financial Management Office will verify final documents and advise on allowability of the unsupported costs. FFP is optimistic that it will implement this recommendation in totality by the end of August 2013. Evidence provided below is according to individual sub-recipients audited.

> Africare: CRS and Africare have taken steps in addressing the OIG findings. Attachment 8 outlines the procedures that CRS and Africare are taking to fully comply with Circular A-122 effort reporting. Currently, Africare has compiled a detailed salary schedule (Attachment 9) for all Africare staff by level of effort and salary charged for those who worked 100% on WALA and those who shared their time among WALA and other non-WALA Africare activities. Attachment 10 further provides supporting evidence on activity reports for the different shared positions and the level of effort these staff charged to WALA. The total costs for salaries are based on actual salaries, benefits, indirect costs, and stipends.
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> Save the Children International (SCI): SCI staff charge their effort reporting based on actual effort/hours worked and compensated for. Since timesheets are for individual staff and not for program positions, they cannot be retroactively applied to the start of the program; this is especially true when staff have not been in Malawi since the start of the program or when staff have changed positions in the same program due to promotion or other factors. It is also the case that the level of effort across programs can change over the course of implementation and this would be reflected in effort reporting. Therefore, FFP believes the finding based on the current level of effort for individual staff should not be retroactively applied, and that the OIG should exclude $302,963 from the audit finding. SCI's effort reporting practice is governed by principles within the SCI Country Office Finance and Procedure Manual, Chapter 12 (Attachment 11).
>
> Emmanuel International Malawi (EI): In the first year of WALA implementation

(July 2009-June 2010), there were 62 employees working under the program. Of the 62 employees, 56 employees were working 100 percent on WALA as evidenced in a sample timesheet of employees (Attachment 12a). The program paid the 56 employees based on 100% of their time spent on WALA implementation as presented in Attachment 13, which shows details of EI WALA staff and time records. In this regard, FFP believes that the salaries of these 56 employees totaling $133,793.35 plus fringe benefits should be allowed.

The remaining six employees were sharing their time with WALA and other non-WALA EI programs for which details are provided in Attachment 13. In reality, these are the staff that the EI Country Director referred to as charging timesheets according to budget. From the sample timesheets (Attachment 14), these six employees were working on WALA more than the percentage that had been provided for in the budget. Sample analysis is provided in Attachment 12b. However, even though these staff were spending more time on WALA than was anticipated, they were not paid for the actual time spent, but only up to what had been allowed in the budget. Therefore, these staff were reimbursed for less than the time they actually spent on WALA. EI used its private funds to pay for time spent on WALA activities not covered by the budget.

EI understood that it could only charge to the maximum of what was actually budgeted. This is why six individuals, whose reimbursement was based on a percentage that was budgeted, received less than they actually worked for in the WALA program. Their timesheets reflect the actual hours worked and EI's financial reports show reimbursement for these six staff to be what was budgeted for each of them. Therefore, based on this, FFP believes that the salaries for five of these six people (excluding the EI Country Director) totaling $19,954.51 plus fringe benefits should be removed from the finding and the costs allowed.

Although the finding is accurate concerning the EI Country Director, EI understands that the Country Director's timesheets need only reflect hours spent on activities where timesheets are required. This has since been corrected and the Country Director is now reflecting all hours worked according to responsibilities on his timesheets as of January 21, 2013. Attachment 15 shows the Country Director's new timesheet recording.

Recommendation No. 8: We recommend that USAID/Malawi determine the allowability of $65,425 in unsupported questioned costs (arising from unsupported compensation) and recover from Total Land Care any amounts determined to be unallowable.

USAID/Malawi concurs with the recommendation. After reviewing the timesheets in question, the Mission has established that although the official in question (Senior

Accountant) joined Total Land Care (TLC) on February 1, 2010, she was assigned as the accountant specifically for the USAID SPICE and Kulera activities effective October 1, 2010. The Senior Accountant works 30 percent of her time on SPICE and 70 percent on Kulera, but has since charged 100 percent of her time to Kulera as observed during the audit. The salary costs incurred by this official from October 1, 2010 through February 2013 amounts to $40,699.56 and 30 percent of this amount that was overcharged to Kulera is $12,209.87 (see Attachment 16). USAID/Malawi is in agreement with this inaccuracy and has verified that TLC has corrected this oversight in its financial management system as of June 2013. The salary costs for the official that occupied this position prior to the current one (October 1, 2009 through September 30, 2010) were correctly being charged to SPICE. The Mission has verified the timesheets and payment vouchers supporting this fact.

USAID/Malawi has determined that TLC must reverse the amount of $13,376.60 that was incorrectly charged to Kulera for the salary costs incurred by the Senior Account during the period of October 1, 2010 to May 31, 2013 and charge these costs to the SPICE activity. TLC will provide the Mission with all the supporting documentation for this transaction and the Mission will verify the allowability of the costs based on the supporting documentation provided. This action shall be completed by July 31, 2013.

Recommendation No. 9: We recommend that the USAID Office of Food for Peace verify that Catholic Relief Services corrects the instance of material noncompliance (timesheets not correctly maintained by subrecipients).

FFP concurs with the recommendation and has verified that CRS has corrected instances of material noncompliance related to timesheets maintained by subrecipients. CRS' efforts to address timesheet maintenance among WALA subrecipients has been ongoing. Attachment 17 is an email from the WALA Chief of Party to subpartners on timesheets and level of effort reporting. Attachment 18 is a slide presentation that CRS made to all subrecipents on allowability of costs. The presentation included the topics of timesheets and level of effort reporting. Following the OIG audit and CRS reminders, subrecipients recently issued notices to its staff on timesheet reporting as evidenced in Attachment 19. CRS has reinforced compliance monitoring that includes sections on reviewing timesheets and level of effort reporting. Attachments 20a and 20b are monitoring tools used by CRS. In compliance with OIG recommendations, Attachment 15 is an example of a completed timesheet for the EI Country Director that is filled out correctly.

Based on the above actions, FFP is satisfied that CRS has corrected the instance of material noncompliance and requests that the OIG close this recommendation.

Recommendation No. 10: We recommend that USAID/Malawi verify that Total Land Care corrects the instance of material noncompliance (timesheets not correctly maintained).

USAID/Malawi concurs with this recommendation. The Mission has reviewed some of the timesheets used by TLC for their staff working on multiple activities (Attachment 21). In the timesheets reviewed, the hours worked on each day are recorded against the activities the individual worked on. At the end of the month, the salaries are prorated based on the percentages of time worked on each activity. According to TLC, employees complete their timesheets, the timekeeper verifies them, and supervisors approve the timesheets before they are sent to the finance office for payment. The AOR has reviewed sample timesheets of TLC staff (Attachment 21) and has verified that they have been completed correctly.

Based on the above action, USAID/Malawi is satisfied that the instance of material noncompliance in TLC timesheets has been corrected and requests that the OIG close this recommendation.

Recommendation No. 11: We recommend that the USAID Office of Food for Peace determine the allowability $13,408 in ineligible questioned costs (costs of audits that did not meet USAID's standards) and recover from Catholic Relief Services any amount determined to be unallowable.

FFP concurs with the recommendation. CRS has engaged with its subrecipient, the Diocese of Chikwawa, on the 2010 and 2011 audits conducted by KPMG. The Diocese of Chikwawa contacted KPMG to request that the audits be redone and resubmitted in line with OIG guidelines for financial audits contracted by foreign recipients. KPMG has agreed to redo the two audits at no extra charge to the program and will also address any inadequacies that may arise from the review. CRS will finalize and resubmit both audit reports to FFP by the end of July 2013. The timeline for rectifying the two audits is incorporated in the overall plan (Attachment 22) to correct instances of material noncompliance under Recommendation No. 12.

Recommendation No. 12: We recommend that the USAID Office of Food for Peace verify that Catholic Relief Services corrects the instance of material noncompliance (required audits of its non-U.S. subrecipients under the Wellness and Agriculture for Life Advancement Program not conducted).

FFP concurs with the recommendation and has since worked with CRS to develop a plan to correct all the instances of material noncompliance related to audit requirements of non-U.S. subrecipients under the WALA program. WALA has for non-U.S. subrecipients: Diocese of Chikwawa, Emmanuel International Malawi (EI), Save the Children International U.K. (SCI), and Total Land Care (TLC).

> <u>Diocese of Chikwawa and EI</u>: CRS has developed a plan and timeline to ensure that the Diocese of Chikwawa and EI conduct and provide audits for all the past years in compliance with OIG audit guidelines. As indicated in response to Recommendation No. 11, the Diocese of Chikwawa has requested KPMG to redo the 2010 and 2011 audits at no extra cost to the

program so that they conform to OIG guidelines. CRS is working with EI to conduct all the audits since WALA's inception in conformity with OIG guidelines. CRS has shared statements of work for the audit with the FFP AOR for review and approval. The plan to correct instances of material noncompliance by the Diocese of Chikwawa and EI is shown in Attachment 22. By October 15, 2013, all audits for the Diocese of Chikwawa and EI will be completed.

SCI: In October 2012, SCI, operating in Malawi, transitioned to SCI U.K. However, there is no requirement for SCI in Malawi to arrange a specific award/country audit for USAID. SCI conducts a single annual audit of all USAID funding, which is performed by KPMG. SCI produces a single Fund Accountability Statement that includes all USAID activities (and therefore includes Malawi grants) and KPMG selects the countries for audit to obtain coverage over 80 percent of expenditures. To date, Malawi hasn't been subject to an audit. Whether or not SCI in Malawi is selected for an audit will depend on the relative size of U.S. programming and audit scoping. Such information will be known in August/September 2013, and SCI in Malawi will liaise with CRS as appropriate to prepare for any audit. The costs of the foreign recipient audit are covered centrally, so costs aren't accrued at the grant level.

TLC: TLC is a multiple recipient of USAID awards. According to guidance provided in Chapter 4.6 of the OIG Financial Audits Contracted by Foreign Recipients, (http://sa.usaid.gov/sites/default/files/guidelines2009.pdf) multiple recipients of awards are supposed to conduct a single audit covering all the awards. TLC has previously conducted audits for all awards, but did not include the FFP Title II subaward. FFP and the Mission are working with TLC to ensure that they include the WALA subaward in all its audits.

Recommendation No. 13: We recommend that the USAID Office of Food for Peace require Catholic Relief Services to develop and implement a plan with milestones to ensure that its non-U.S. subrecipients under the Wellness and Agriculture for Life Advancement Program conduct required audits in the future.

FFP concurs with the recommendation and requested CRS to develop and implement a plan to ensure that non-U.S. WALA subrecipients conduct required audits.

CRS has developed a plan that includes sending out calendar reminders to subrecipients when audits for non-U.S. subrecipients are due and use the CRS/WALA grant management team's partner monitoring checklists presented as Attachments 17a and 17c. As of May 2013, the CRS partner monitoring checklist now includes a section on audits. CRS has already started implementing the plan as mentioned in the response to Recommendation No. 12. CRS submitted to FFP annual audit statements of work for review for EI and the Diocese of Chikwawa (Attachments 23a and 23b respectively). FFP has also included monitoring of audit compliance in its monitoring checklist.

Based on the above actions, FFP is satisfied that non-U.S. subrecipients will now be in compliance concerning audits and requests that the OIG close this recommendation.

Recommendation No. 14: We recommend that USAID/Malawi develop a site visit checklist that includes procedures for monitoring compliance with branding and marking requirements.

USAID/Malawi concurs with this recommendation. As mentioned in the response to Recommendation No. 1, the PDA Office is currently developing a site visit checklist that should be finalized no later than August 31, 2013. Branding and marking monitoring will be a component in this checklist. The Mission's Development Outreach Communications (DOC) Office works closely with staff and implementing partners to ensure compliance with branding and marking requirements. In early 2013, the DOC Office conducted branding and marking training for USAID staff and implementing partners and often accompanies Mission staff on monitoring visits to ensure branding and marking compliance. The DOC Office has developed several tools to help make the complicated guidance on branding and marking more accessible to staff and implementing partners. One such tool (Attachment 24) entitled "To Mark or Not to Mark" is a one-page table reference guide for items that should be marked and those that do not require marking.

Auditor Verification of Selected FY 2012 Performance Indicators

Program	Performance Indicator	Target	Reported Result	Sample Tested	Amount Verified
WALA	Number of hectares of land brought under irrigation by WALA activities	300	285	212	0*
	Number of project-assisted communities that had disaster early warning and response systems in place	175	193	144	84*
	Number of rural households benefiting directly from U.S. Government interventions	214,974	179,945	179,945	Not verifiable†
	Number of vulnerable households benefiting directly from U.S. Government interventions	193,477	161,951	161,951	Not verifiable†
MLI-BA	Number of farmers and others who have applied new technologies or management practices as a result of U.S. Government assistance	6,000	3,246	3,246	Not verifiable†
	Number of individuals who have received U.S. Government-supported short-term agricultural sector productivity or food security training	17,000	15,046	15,046	13,332‡
SPICE	Number of farmers and others who have applied new technologies or management practices as a result of U.S. Government assistance	2,000	3,235	3,235	Not verifiable†
	Number of individuals who have received U.S. Government-supported short-term agricultural sector productivity or food security training	3,000	4,215	4,215	Not verifiable§

* Subrecipients could not produce complete documentation to support the figures reported for these performance indicators (page 6).

† Data collected for these performance indicators did not measure what it was intended to measure, and was therefore invalid (page 5).

‡ The MLI-BA database was incomplete and included 1,679 people that WALA had already reported (page 6).

§ SPICE managers had not kept registers that adequately accounted for training participation (page 6).

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