OFFICE OF INSPECTOR GENERAL

AUDIT OF USAID'S FOOD SECURITY PROGRAM IN MADAGASCAR

AUDIT REPORT NO. 4-962-14-002-P
JANUARY 7, 2014

PRETORIA, SOUTH AFRICA

Office of Inspector General

January 7, 2014

MEMORANDUM

TO: USAID Office of Food for Peace Director, Dina Esposito
USAID/Madagascar Mission Director, Susan Riley

FROM: Regional Inspector General/Pretoria, Robert W. Mason /s/

SUBJECT: Audit of USAID's Food Security Program in Madagascar (Report No. 4-962-14-002-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 in Appendix II.

The report includes 17 recommendations to strengthen USAID's food security program in Madagascar. We acknowledge management decisions on all recommendations and consider that final action has been taken on Recommendations 6, 8, and 14. Please provide the necessary documentation to the Office of Audit Performance and Compliance Division to obtain final action on Recommendations 1 through 5, 7, 9 through 13, and 15 through 17. Recommendations 6, 8, and 14 are closed upon report issuance.

Thank you for the cooperation and courtesy extended to my staff during the audit.

U.S. Agency for International Development
100 Totius Street
Groenkloof X5, 0181
Pretoria, South Africa
http://oig.usaid.gov

CONTENTS

Abbreviations

The following abbreviations appear in this report:

ADRA	Adventist Development and Relief Agency
ADS	Automated Directives System
AOR	agreement officer's representative
CARE	Cooperative for Assistance and Relief Everywhere Inc.
CFR	Code of Federal Regulations
CRS	Catholic Relief Services
FFP/W	USAID Office of Food for Peace in Washington
FMFIA	Federal Managers' Financial Integrity Act of 1982
FY	fiscal year
IEE	initial environmental examination
LOL	Land O' Lakes International Development Division
RIG	Regional Inspector General
SALOHI	Strengthening and Accessing Livelihood Opportunities for Household Impact

SUMMARY OF RESULTS

Madagascar is one of the world's poorest nations. The United Nations estimates that more than 80 percent of the population lives on less than $1.25 a day, and 50 percent of Malagasy children younger than 5 are stunted and underweight because of chronic malnutrition and food insecurity.[1] The primary causes of food insecurity—low agricultural productivity, lack of dietary diversity, and disease—are exacerbated by natural disasters and poor governance. Rural populations are the most vulnerable, because farmers and pastoralists are particularly susceptible to droughts and flooding and do not have easy access to markets.

To address Madagascar's chronic food insecurity, USAID's Office of Food for Peace awarded a 5-year, $84.7 million cooperative agreement to Catholic Relief Services (CRS) in May 2009 (later reduced to $83.8 million) to implement the Strengthening and Accessing Livelihoods Opportunities for Household Impact (SALOHI) program. The goal is to reduce food insecurity and vulnerability in 21 districts in eastern and southern Madagascar by 2014. It has three main objectives: improving the health and nutritional status of children younger than 5, improving household livelihoods, and strengthening communities' resilience and ability to withstand economic shocks and natural disasters.

The award included $49.8 million for program expenses and a $4.6 million cost-share requirement. The award also provided for 27,180 metric tons of food to be distributed directly to beneficiaries and 58,710 metric tons of food to be sold in local markets to generate funds for program expenses, a process known as monetization.

Although the U.S. Government ceased all nonhumanitarian activities and direct assistance to the Malagasy Government following the March 2009 coup d'état, SALOHI was allowed to continue because of its lifesaving and humanitarian aspects. The program builds upon previous Food for Peace programs in Madagascar and is expected to run until June 30, 2014.

As of June 30, 2013, USAID had authorized $47.5 million for expenses and SALOHI had spent $39.8 million. CRS had contributed $3.7 million of its cost share. Food for Peace had provided about 60,000 metric tons of food for direct distribution and monetization, which generated $21.6 million.

One of the program's main activities is distributing food to pregnant and lactating women, children between the ages of 6 and 23 months old, and participants in two projects within the program—Food for Assets and Food for Training. Initially targeting 544 communities and 98,500 households, the program has expanded to 592 communities and 129,858 households in Madagascar's most food-insecure districts in the south and along the east coast.

CRS has subagreements with three other U.S.-based organizations, and this consortium implements SALOHI. A CRS employee is the chief of party, and the program is managed by the program coordination unit, which consists of staff and technical experts from each organization. Table 1 outlines the role of each organization and the number of communities they cover.

[1] Food insecurity means that people do not have access to food that meets dietary needs because of lack of resources, availability, or knowledge of how to use and prepare food appropriately.

Table 1. Program Coordination Unit, as of June 30, 2013 (Unaudited)

Organization and Role in Unit	Number of Targeted Communities	*Subobligations and Expenditures* (Excluding Cost Share)
CRS: Leads consortium and is accountable to USAID. Responsible for overall program coordination, monitoring and evaluation, administration, and commodity management and distribution.	182	$18.6 million and $16.8 million
Adventist Development and Relief Agency (ADRA): Designated technical lead for health and nutrition interventions.	234	$15.4 million and $12.6 million
Land O' Lakes International Development Division (LOL): Designated lead for livelihood capacity interventions and managing monetization sales and proceeds.	91	$9.1 million and $6.4 million
Cooperative for Assistance and Relief Everywhere Inc. (CARE): Designated lead for community resilience, governance interventions, and village savings and loan activities.	85	$4.4 million and $4 million

Source: CRS

Each U.S.-based organization implements activities in its designated geographical areas. CARE's policies prevented it from accepting monetization funds, and therefore it relied on CRS and a local faith-based organization to implement its health and nutrition activities. CARE also relied on staff from LOL to help with livelihoods activities in some communities. CRS implemented the majority of its field activities through five local faith-based organizations.[2]

The Regional Inspector General (RIG)/Pretoria conducted this audit to determine whether USAID's food security program in Madagascar is achieving its goal of reducing food insecurity by improving the nutritional and health status of children younger than 5, improving household livelihoods, and strengthening communities' resilience and ability to withstand economic shocks and natural disasters.

The audit found that SALOHI met or made acceptable progress toward seven performance targets for indicators that represented these objectives. As shown in Appendix III, SALOHI had already reached its 5-year target for *Percentage of underweight children 0-59 months* (a key indicator of program impact), exceeded its annual targets for two other indicators, and reached at least 95 percent of its annual targets for two more. For the two remaining indicators, SALOHI reached at least 75 percent of its targets, which USAID considered acceptable.

During field visits, farmers told the audit team that agricultural yields dramatically increased because of new techniques they learned through SALOHI. These increases led to higher production and income, which reduced the number of months without food. Mothers participating in child nutrition activities said their babies were healthy, and Food for Assets groups said improved community infrastructure helped them reach markets and health-care

[2] They include Bureau de Développement de l'Ecart de Mananjary, Caritas Diocesaine de Fenerive-Est, Coordination Diocesaine de Fianarantsoa pour le Developpement Economique et Social, and Organe de Developpement du Diocese de Toamasina. The fifth, Organe Diocésain de Développement Rural Ambovombe, was let go because of financial irregularities and internal control weaknesses, which are all discussed on page 14.

facilities faster. (Some of these groups are shown in the photos below.) Beneficiaries discussed how the food rations they received helped them and their families stay healthy.

Women and children are some of the program's beneficiaries. The women on the right help build a road to connect their rural community to a nearby town. (Photos by RIG/Pretoria, May 2013)

However, inconsistent implementation reduced the program's impact (page 6). Some implementation strategies varied among partners, and disaggregated performance results showed that some partners were not meeting their targets while other partners exceeded theirs. Because SALOHI was structured as a consortium that reported only consolidated results, USAID was unaware of these differences.

Additionally, the audit found that:

- USAID did not fulfill certain designated responsibilities (page 9). The Agency did not confirm that recommendations from prior midterm evaluations and data quality assessments were implemented, nor did it follow up on requirements to fumigate warehouses or implement branding and marking plans.

- USAID did not resolve commodity losses and problems with quality (page 12). CRS had not reimbursed the Agency for accumulated commodity losses worth $81,091, and problems with sorghum quality continued.

- CRS did not divulge names of people suspected of fraud (page 14). It terminated seven employees for falsifying hotel receipts, severed its subagreement with a local faith-based organization for mismanaging funds and disregarding internal controls, and identified another employee who resigned after being caught falsifying training receipts. These instances prompted CRS to initiate a forensic audit involving its entire SALOHI staff, and it recommended that its partners do likewise. However, CRS did not disclose the names of its former employees to USAID and only planned to share the results of the audit if U.S. Government funds were misappropriated.

- Performance data lacked precision and reliability (page 16). Some results were underreported, while others were unreliable because performance indicators and data collection methods changed annually.

To address these issues and strengthen USAID's current and future food security programs in Madagascar, the audit recommends that:

1. The USAID Office of Food for Peace modify the SALOHI cooperative agreement to require CRS to disaggregate annual performance data, progress reports, and distribution plans by implementing partner (page 8).

2. The USAID Office of Food for Peace determine whether the various methods of distributing maternal and child food rations in Madagascar meet USAID's goals and issue guidance to CRS to revise its distribution strategy as necessary (page 8).

3. The USAID Office of Food for Peace evaluate potential alternative structures for its future food security program in Madagascar, determine the most appropriate option, and document the results (page 8).

4. The USAID Office of Food for Peace clarify, in writing, roles and responsibilities for program monitoring in the absence of a Food for Peace officer at USAID/Madagascar (page 10).

5. The USAID Office of Food for Peace adopt a plan to track and implement recommendations emanating from program evaluations and data quality assessments in Madagascar (page 10).

6. The USAID Office of Food for Peace require CRS to update its initial environmental examination (IEE) to include a section on warehouse fumigation and other pesticide use (page 11).

7. The USAID Office of Food for Peace verify that its Food for Peace officers have received environmental compliance training (page 11).

8. The USAID Office of Food for Peace implement a plan to confirm that its recipients in Madagascar adhere to approved branding and marking plans (page 11).

9. The USAID Office of Food for Peace and USAID/Madagascar disseminate guidance clearly outlining procedures and responsibilities for resolving commodity losses and issues with commodity quality (page 14).

10. The USAID Office of Food for Peace implement a plan with milestones to resolve outstanding commodity losses and issues of sorghum quality in Madagascar (page 14).

11. The USAID Office of Food for Peace determine the allowability of $81,091 in ineligible questioned costs arising from commodity losses and recover from CRS any amounts determined to be unallowable (page 14).

12. USAID/Madagascar implement a plan to include steps on commodities and engage Food for Peace staff in its annual Federal Manager's Financial Integrity Act of 1982 internal control assessments (page 14).

13. The USAID Office of Food for Peace contract an independent accounting firm to conduct a financial audit, in accordance with OIG policies, of SALOHI expenditures since the award began (page 15).

14. The USAID Office of Food for Peace ask CRS to disclose the names of people terminated for professional misconduct to USAID's Compliance Division for suspension or debarment action (page 16).

15. The USAID Office of Food for Peace determine the allowability of $2,390 in ineligible questioned costs pertaining to falsified training expenses, and recover from CRS any amount determined to be unallowable (page 16).

16. The USAID Office of Food for Peace determine the allowability of $3,615 in ineligible questioned costs identified in CRS's forensic audit, and recover from CRS any amounts determined to be unallowable (page 16).

17. The USAID Office of Food for Peace implement a plan with milestones to improve precision and reliability of performance data reported for its current and future food security programs in Madagascar (page 18).

Detailed findings appear in the following section, and the scope and methodology appear in Appendix I. Management comments are included in their entirety (without attachments) in Appendix II, and our evaluation of them begins on page 19.

AUDIT FINDINGS

Inconsistent Implementation Reduced Program's Impact

According to its management plan, the SALOHI consortium was intended to promote the "harmonization of approaches across the program," and the program was designed so "that each geographical zone [would] have access to the same package of services." The cooperative agreement specified a standard set of services that each partner would provide in each targeted community to maximize the program's effect. This set included activities to improve nutrition and farm productivity, establish village savings and loan groups, and enhance emergency preparedness. USAID and SALOHI managers agreed that these main objectives needed to be met both overall and at the community level for the program to have the greatest impact.

The audit found that despite the importance of consistent implementation, some implementation strategies varied among partners. Performance data showed that partner achievement also widely varied, with some partners exceeding targets while others did not meet theirs. These differences hurt results in certain areas and reduced the program's overall impact. Examples follow.

Food Distribution. Strategies differed for distributing food to pregnant and lactating women and children between 6 and 23 months old. ADRA distributed these rations every month in each of its targeted communities, but LOL distributed rations only twice a year when food was most scarce. CARE and CRS distributed rations monthly, but only in selected communities that differed each time. Auditors visited two southern communities that CRS served and found that beneficiaries in one received rations only once more than a year ago; those in the second community got rations only once about 2 years ago. Consequently, the impact of these food rations was inconsistent among partners and regions.

In addition, SALOHI's food distribution strategies did not align with USAID's. The Agency's prime SALOHI manager said rations should be distributed during the lean season when food is scarce. However, until recently, most rations for eligible women and children were distributed concurrently with rations for Food for Assets projects. Combining distributions was intended to reduce transport costs and ensure that food reached targeted women and children because Food for Assets projects provided food for other household members. Yet this meant that the rations for women and children often depended on the existence of Food for Assets projects and were not available when women and children most needed them. Because of this, SALOHI stopped distributing rations for women and children in conjunction with Food for Assets projects. In addition, anticipated savings from combining the two distributions did not occur.

Village Savings and Loan. Village savings and loan groups are particularly important because they help participants buy food, agricultural supplies, or building materials when needed. However, even though each SALOHI partner was to establish these groups, ADRA chose not to implement this activity until September 2012, more than 3 years after the program started. ADRA managers had not implemented this activity before and decided to do it only after seeing other partners establish the groups successfully.

According to USAID managers, USAID discussed more than once with SALOHI staff ADRA's decision not to implement village savings and loan groups. However, the Agency did not push ADRA to start the activity because managers deferred to the SALOHI chief of party, who had accepted ADRA's initial decision not to implement it.

Performance Data. Although SALOHI was making progress toward reaching its overall performance targets, results for individual partners were inconsistent. SALOHI irrigated 5,809 hectares through Food for Assets projects, more than three times its 1,750-hectare target. However, disaggregated data showed vast differences among the partners. One local faith-based organization did not irrigate any of its targeted 144 hectares, yet LOL irrigated 1,010 hectares—more than ten times its target of 100 hectares. Similarly, 29 percent of SALOHI farmers applied at least two improved agricultural practices in the last growing season (the target was 30 percent). Disaggregated data showed that CARE and two local faith-based organizations reported low results of 9, 5, and 18 percent in their respective zones, while another local faith-based organization reported 62 percent.

SALOHI managers decided that a reduced malnutrition rate (the *Percentage of underweight children 0-59 months* indicator in Appendix III) was the most significant measure of the program's achievement. Overall, the rate declined from 29.7 percent in 2011 to 24.2 percent in 2012, but it actually increased in ADRA zones from 23.9 to 30.4 percent during the same period.

These differences were attributable to the structure of the SALOHI consortium and how CRS and USAID managed it. CRS relied on the program coordination unit to develop a "unified approach to each intervention" and ensure that "interventions are implemented uniformly across the consortium to achieve maximum program impact." However, the program coordination unit had very little authority: according to the program's management plan and SALOHI chief of party, each partner was responsible ultimately for the quality of its own program and deciding how to implement programs in the field. Thus, the unit worked to build consensus and share information but lacked any enforcement capabilities. When ADRA decided not to establish village savings and loan groups, for example, the program coordination unit could advise but not require ADRA to do so.

Interviews with SALOHI staff showed that CRS prioritized the consensus-building aspects of the consortium and the independence of the consortium's partners above enforcing the program's strategies. A USAID manager described CRS as the "first among equals" in this management structure, which reflected CRS's reluctance to direct the strategies of other partners. CRS, ADRA, and CARE each implemented previous Food for Peace programs and touted this experience as a SALOHI strength. However, the midterm evaluation found that experienced staff had difficulty adopting the new strategies that SALOHI promoted. Program employees commented that LOL, the only partner without previous Food for Peace experience, followed the SALOHI strategies most closely. Without the willingness or ability to enforce consistent implementation, CRS reduced—or at best made uncertain—the impact the program could have.

USAID opted for the consortium structure because it reduced its workload. The Agency profited from the geographic coverage and work of nine organizations (including the local faith-based organizations), but was legally responsible for only one. Because of this structure, USAID received only consolidated reports that showed overall SALOHI progress. Therefore, it was not aware of variations in performance or that SALOHI sometimes reduced targets for underperforming partners and increased them for those that had already exceeded targets in other geographic areas.

USAID also was not aware of different food distribution methods because it received consolidated food requests only for the year and did not have information about actual distribution strategies. A November 2012 portfolio review conducted by USAID summarized distributions as “blanket feeding” (distributing rations to every eligible person) even though only one partner distributed food this way.

Some USAID employees were concerned that CRS dominated the relationship with USAID. One manager said partners directed the USAID program and told the Agency what to do, rather than vice versa. Another manager had to remind USAID staff and the SALOHI chief of party that CRS could not make decisions that were USAID’s responsibility, like those pertaining to environmental compliance requirements (page 10). During fieldwork, the audit team observed weak USAID leadership when USAID’s principal SALOHI manager deferred to SALOHI staff on basic questions that were within USAID’s purview, such as requirements for branding and marking. USAID also did not complete some of its basic management responsibilities, as discussed in the next finding.

Inconsistent implementation contradicts the harmonization principles of the cooperative agreement and reduces SALOHI’s overall impact. Although exceeding targets in one location contributes to overall SALOHI results, it does not enhance food security in areas where targets are not reached or planned activities are not implemented. A USAID manager said each consortium member needed to implement the same activities in the same way for the consortium to work effectively. By not doing so, the consolidated data reported to the Agency misrepresented actual activity, making decisions based on that information unsound. Without adequate information, USAID could not take steps to address poor performance or implementation. Similarly, final evaluations may not reflect actual performance of poor performing partners, impeding USAID’s ability to evaluate partners for consideration in future programs.

Food for Peace guidance on monitoring states that the Office of Food for Peace “has an obligation to the federal government and the American people to ensure that [resources] are used effectively and efficiently to achieve the best possible food security outcomes and that food aid programs continually learn from past experiences and improve their implementation.”[3] To promote effective and efficient use of U.S. Government funds, we make the following recommendations.

> ***Recommendation 1.*** *We recommend that the USAID Office of Food for Peace modify the Strengthening and Accessing Livelihoods Opportunities for Household Impact cooperative agreement to require Catholic Relief Services to disaggregate annual performance data, progress reports, and distribution plans by implementing partner.*

> ***Recommendation 2.*** *We recommend that the USAID Office of Food for Peace determine whether the various methods of distributing maternal and child food rations currently used in Madagascar meet USAID’s goals and issue guidance to Catholic Relief Services to revise the distribution strategy as necessary.*

> ***Recommendation 3.*** *We recommend that the USAID Office of Food for Peace evaluate potential alternative structures for its future food security programs in Madagascar, determine the most appropriate option, and document the results.*

[3] Food for Peace Information Bulletin 09-06, “Monitoring and Evaluation Responsibilities of Food for Peace Multi-Year Assistance Programs Awardees,” July 30, 2009.

USAID Did Not Fulfill Certain Designated Responsibilities

USAID's Automated Directives System (ADS) 303.2 outlines primary duties for agreement officer's representatives (AORs), who are responsible for administering certain aspects of awards and ensuring prudent management of funds. An AOR's responsibilities include verifying compliance with environmental and branding requirements. Because AORs for Food for Peace programs are located generally in Washington, D.C., the Office of Food for Peace delegates certain responsibilities to its overseas officers. They serve as the primary point of contact for all issues pertaining to a country's Food for Peace program, monitor daily implementation, and ensure compliance with USAID and Food for Peace regulations, policies, and procedures. These responsibilities include participating in midterm evaluations and data quality assessments, and providing awardees with guidance on how to use them.

Despite these, USAID managers did not fulfill certain designated responsibilities.

Program Recommendations. A team from USAID/Madagascar and USAID/Southern Africa, including the mission-based Food for Peace officer and regional Food for Peace monitoring and evaluation specialist, conducted a data quality assessment of SALOHI performance indicators in May 2012. The assessment resulted in 13 recommendations. In addition, SALOHI completed a required midterm evaluation in July 2012 that produced more than 100 recommendations.

However, USAID did not make sure that these recommendations were implemented. The data quality assessment was still in draft at the time of audit fieldwork, and the audit team found that some recommendations had not yet been implemented, such as one calling for a system to track missing data forms to reduce underreporting (page 16).

Although the AOR said she followed up on midterm evaluation recommendations through written and verbal communications and site visits, documentation provided as support for this statement showed input on the draft midterm evaluation, not systematic followup of its recommendations. A trip report, meanwhile, showed only limited followup in the field. Moreover, the SALOHI team said USAID had not followed up on the recommendations. The AOR also said she would rely on the final evaluation to see whether the recommendations were adopted, which would be too late to correct any shortcomings.

While the mission-based Food for Peace officer would be responsible generally for following up on these recommendations, the position has been vacant since August 2012. The AOR subsequently overlooked following up on the recommendations, which had become her responsibility during the vacancy. Although the AOR visited Madagascar twice during that time, we observed during fieldwork that she did not understand key roles and responsibilities or how they were divided between herself and existing staff at the mission. For example, the AOR and the mission's monitoring and evaluation specialist each said that they thought the other had followed up on data quality assessment recommendations. The AOR also said she thought the regional Food for Peace monitoring and evaluation specialist had returned to help implement the recommendations, but his trips were cancelled.

Additionally, the AOR did not know that the mission's commodity management specialist—who spent more than half his time on SALOHI—was the program's activity manager. He worked closely with SALOHI on commodities and discussed the midterm evaluation with program staff.

However, he did not have the same authority as the AOR or Food for Peace officer, and could not enforce the recommendations himself.

USAID invested significant time and resources in the midterm evaluation and data quality assessments; the budget for the midterm evaluation alone was $200,000. The resulting recommendations should be carried out to maximize the effective use of U.S. Government funds. Following audit fieldwork, USAID officials said a person has been assigned to fill the Food for Peace position at the mission and arrived at post in late 2013. Consequently, this audit makes the following recommendations.

> ***Recommendation 4.*** *We recommend that the USAID Office of Food for Peace clarify, in writing, roles and responsibilities for program monitoring in the absence of a Food for Peace officer at USAID/Madagascar.*

> ***Recommendation 5.*** *We recommend that the USAID Office of Food for Peace adopt a plan to track and implement recommendations emanating from program evaluations and data quality assessments in Madagascar.*

Warehouse Fumigation. Title 22 of the Code of Federal Regulations, Part 216 (22 CFR 216) requires programs to prepare IEEs, which include a section to determine the potential environmental effects of proposed pesticide use. This requirement and activities related to it, however, caused a great deal of confusion among the staffs for SALOHI, Food for Peace, and USAID/Madagascar.

Although SALOHI developed an IEE and USAID recertified it annually, the IEE did not include a section on pesticides used for warehouse fumigation. The AOR and SALOHI's chief of party said it was not standard practice to include this section in IEEs. Yet, members of USAID's environmental staff said it should have been, according to 22 CFR 216.

In November 2009 SALOHI's chief of party asked USAID for guidance on warehouse fumigation prior to the arrival of commodities. She subsequently told USAID that a pesticide plan was not necessary in Madagascar because her colleagues implementing Food for Peace programs in other countries had not prepared them. The bureau environmental officer disagreed. USAID asked SALOHI to prepare a supplemental pesticide plan and approved a temporary waiver allowing SALOHI to fumigate warehouses without having a pesticide plan in place.

Members of SALOHI's staff and the AOR said they thought this waiver applied for the duration of the program. However, USAID's environmental staff said it applied only to the initial fumigation in 2009. SALOHI drafted a supplementary pesticide 18 months later, but USAID did not approve it because it was not in English, pertained only to procedures for agricultural use (which were not applicable to SALOHI activities), and did not include warehouse fumigation.

USAID's environmental officer for Madagascar at that time said he did not follow up to check whether the plan was updated with required revisions, but he could not recall why at the time of the audit. The AOR did not enforce the requirements either, because she misunderstood them; she said she never received environmental compliance training since joining the Office of Food for Peace in August 2010.

USAID staff said they understood that Food for Peace planned to issue a global pesticide plan, which seemed to reduce the urgency of finalizing a new plan for SALOHI. Yet, following audit fieldwork, the new regional environmental officer said the global plan would not be finalized before mid-October 2013, and SALOHI would still need to develop its own specific plan after that.

Environmental compliance requirements are designed to protect the environment and beneficiaries from unintended harm. Without an approved pesticide plan in place, USAID risked contaminating food aid and harming beneficiaries. Accordingly, this audit makes the following recommendations.

> ***Recommendation 6.*** *We recommend that the USAID Office of Food for Peace require Catholic Relief Services to update its initial environmental examination to include a section on warehouse fumigation and other pesticide use.*

> ***Recommendation 7.*** *We recommend that the USAID Office of Food for Peace verify that its Food for Peace officers have received environmental compliance training.*

Branding and Marking. According to the approved branding and marking plan, SALOHI was required to place signs in participating communities and at infrastructure projects indicating support received from USAID and the American people. In addition, 22 CFR 226.91 required temporary signs or plaques to be built during construction of infrastructure projects and replaced with a permanent sign upon completion.

Nevertheless, SALOHI partners were not systematically placing signs in the communities where they were working and were sometimes only marking infrastructure projects when they were completed. For example, auditors visited one road site under construction that was not marked with a temporary USAID sign. A completed road that auditors visited also was unmarked. In another community, a SALOHI partner erected a USAID sign for a tree-planting activity, but the sign did not show any of the other SALOHI activities implemented there.

The AOR did not understand roles and responsibilities for monitoring branding and marking in the absence of a mission-based Food for Peace officer. She said she was not sure who was responsible for monitoring or enforcing compliance with approved branding and marking plans. The commodity management specialist had commented on branding during his visits to warehouses and food distribution points, noting in one case “SALOHI branding and [marking] should be seen as required.” However, he did not have the same authority as the AOR or Food for Peace officer to instruct SALOHI to correct deficiencies when found.

Branding and marking communicates USAID’s sponsorship and helps maximize the public diplomacy benefits of foreign assistance. Poor branding and marking is a missed opportunity, especially since neighboring communities not directly targeted by SALOHI benefited from the program’s infrastructure projects, like roads. To address this problem, the audit makes the following recommendation.

> ***Recommendation 8.*** *We recommend that the USAID Office of Food for Peace implement a plan to confirm that its recipients in Madagascar adhere to approved branding and marking plans.*

USAID Did Not Resolve Commodity Losses or Problems With Quality

Title 22, CFR, Part 211 (22 CFR 211) regulates the transfer of food commodities from the U.S. Government to implementing partners. According to 22 CFR 211.9, a partner must reimburse the U.S. Government for commodity losses worth more than $500 that occurred while under the partner's care. When reporting losses, the partner must provide complete documentation on the status of the losses and any claims it filed against liable parties.

Implementing partners also must inform USAID immediately of any problems with food quality through a commodity feedback loop report so they can be resolved promptly. The AOR is responsible for coordinating with all parties to resolve commodity loss and quality issues. Nevertheless, USAID did not ensure that its partners repaid the U.S. Government for the lost commodities or resolve known problems with their quality.

USAID did not issue bills for reported commodity losses. In accordance with 22 CFR 211.9, CRS reported eight losses worth $81,091 due to fraud or misconduct since the beginning of the program. These losses are summarized in Table 2.

Table 2. Losses Reported to USAID (Unaudited)

Partner	Date Discovered	Date reported to USAID	Value ($)
CARE	4/15/2010	7/31/2010	1,018
LOL	4/26/2010	7/31/2010	2,993
ADRA	9/21/2010	9/24/2010	19,734
CRS	10/1/2011	12/7/2011	24,684
CRS	2/3/2011	5/2/2011	22,284
CRS	3/27/2012	3/27/2012	3,028
ADRA	1/1/2012 to 9/30/2012	3/25/2013	5,151
ADRA	9/30/2012	3/25/2013	2,199
		Total:	**81,091**

At the time of fieldwork, CRS officials said they were still gathering documentation for losses that occurred in 2010 and 2011. USAID has not established a deadline for that documentation to be submitted, nor has it issued a bill for any of the losses. Managers at the Agency said they decided to compile the losses and review them together before they issue a bill.

USAID did not resolve problems with sorghum quality. SALOHI distributed sorghum in southern Madagascar, where it is a staple food. While visiting the warehouse there, auditors found significant amounts of inedible debris and chaff, shown in the photo on the next page, in a bag of sorghum. Warehouse employees said they found these in 1 out of every 20 bags received.

Some of the sorghum USAID supplies contain debris. (Photo by RIG/Pretoria, June 2013)

SALOHI's chief of party said she told USAID/Madagascar about quality issues in August 2011 and discussed them with the AOR in February 2012 when she was visiting Madagascar. In its fiscal year (FY) 2013 budget, the SALOHI team asked Food for Peace "to improve the quality of sorghum received in [Year 5], as sorghum received in [Years 3 and 4] included a lot of debris (rocks, sticks, and other foreign matter)."

The chief of party did not complete the commodity feedback loop report because she was unfamiliar with the process and did not know that she was responsible for submitting one to report poor commodity quality as well as losses. The mission's commodity management specialist asked SALOHI in 2011 to complete the report for commodity losses, but neither he nor the AOR had asked SALOHI staff to do so for quality problems.

The AOR said she reported the problem verbally to Food for Peace's Program Operations Division, which procures the commodities and interacts with suppliers. However, she said she did not follow up because the division staff asserted that the sorghum met U.S. Government standards, which allow for a maximum of 1 percent debris. Without the commodity feedback loop report, however, the AOR could not confirm that the sorghum contained less than 1 percent debris.

Although the AOR was aware of sorghum quality issues and responsible for coordinating with stakeholders to resolve them, she also said CRS did not follow proper procedures or provide adequate information. The agreement officer responsible for the award said he first heard about the sorghum issues in May 2013 during audit fieldwork when the AOR informed him.

These problems with resolving losses and commodity quality happened because Food for Peace and USAID/Madagascar's procedures were poorly disseminated, vague, or nonexistent. Stakeholders said resolution processes and responsibilities were ambiguous. For example, the mission's commodity management specialist worked with CRS to obtain documentation for losses but could not make a determination or issue a bill for collection because he did not have the authority. Employees in the controller's office said the mission did not have clear procedures on how to handle commodity losses or follow up on questioned costs. The SALOHI team also said they lacked clear guidance from USAID. Since existing guidance did not establish a timeline for resolving losses, USAID managers assumed there was none as long as CRS reimbursed losses by the end of the program.

The checklist the mission used in its annual Federal Managers' Financial Integrity Act of 1982 (FMFIA) internal controls assessment did not cover commodities. The food security program fell under the health office's purview in FY 2012, and it was the responsibility of the Food for Peace team to bring concerns to that office. However, this did not happen because the AOR was located in Washington, the mission's Food for Peace officer left at the start of the assessment process, and the commodity management specialist did not help prepare the assessment. Including commodities on the FMFIA checklist and reviewing related issues as part of the FMFIA assessment could have helped the staff identify and resolve these weaknesses earlier.

Though losses account for less than 1 percent of the total commodities distributed, they represent $81,091 not used to further U.S. Government objectives. Not issuing bills for collection on a timely basis reduced the amount of funding available to achieve program results, while inedible debris and poor quality sorghum resulted in less nutrition for beneficiaries. According to U.S. Government guidelines, debris is deductible from the cost of commodities. Since the quantity of debris was unknown, USAID could not recover funds spent on it.

We make no recommendations to recover the cost of debris in sorghum that has already been distributed. However, we make the following recommendations to resolve these commodity loss and quality problems for current and future food aid programs in Madagascar.

> ***Recommendation 9.*** *We recommend that the USAID Office of Food for Peace and USAID/Madagascar disseminate guidance clearly outlining procedures and responsibilities for resolving commodity losses and issues with commodity quality.*

> ***Recommendation 10.*** *We recommend that the USAID Office of Food for Peace implement a plan with milestones to resolve outstanding commodity losses and issues of sorghum quality in Madagascar.*

> ***Recommendation 11.*** *We recommend that the USAID Office of Food for Peace determine the allowability of $81,091 in ineligible questioned costs arising from commodity losses and recover from Catholic Relief Services any amounts determined to be unallowable.*

> ***Recommendation 12.*** *We recommend that USAID/Madagascar implement a plan to include steps on commodities and engage Food for Peace staff in its annual Federal Managers' Financial Integrity Act of 1982 internal control assessments.*

Catholic Relief Services Did Not Divulge Names of People Suspected of Fraud

Federal Acquisition Regulation (FAR) Clause 52.203-13(b)(3)(i)(A) requires contractors to disclose in writing to the Office of Inspector General whenever they have "credible evidence that a principal, employee, agent, or subcontractor of the Contractor has committed" either certain violations of federal criminal law or of the civil False Claims Act. According to USAID's Compliance Division, providing the name and address of a person or entity suspected of fraud is a minimal requirement in establishing credible evidence. The division works closely with OIG and uses such evidence to initiate suspension and debarment actions against organizations and individuals.

Although 22 CFR 226, “Administration of Assistance Awards to U.S. Non-Governmental Organizations,” (governing cooperative agreements) does not have language similar to FAR, officials in the compliance division said these partners are encouraged to adhere to the same standard. Moreover, 22 CFR 211 requires implementing partners to report suspected fraud involving food aid commodities to USAID promptly.

In accordance with these requirements, CRS informed USAID of commodity losses due to theft or misuse (page 12) and three additional instances of suspected fraud. In the first case, CRS terminated its subaward (with total expenses of $850,000 through March 31, 2013, excluding commodities) with a local faith-based organization for mismanaging funds, disregarding internal controls and procedures, and other deficiencies. In the second, CRS terminated seven employees for falsifying hotel receipts that totaled less than $150 of non-U.S. Government funds. In the third, a CRS employee falsified documents for training expenses worth $2,390 and resigned his post prior to termination. CRS said it would repay USAID the full amount.

Because of these concerns, CRS contracted a forensic audit with funds from non-U.S. Government donors to determine the extent of fraud in its programs in Madagascar. Based on preliminary findings at the time of fieldwork for this audit, the CRS country representative recommended that its SALOHI partners—ADRA, CARE, and LOL—conduct similar audits. The CRS country representative shared a summary of the final forensic audit report with RIG/Pretoria on October 29, 2013, including only findings that pertained to USAID programs. The forensic audit highlighted expenditures of $3,615 from 26 questionable hotel claims and 1 questionable transaction in the procurement process. The country representative said these 27 transactions pertained to SALOHI, and that no instances of fraud were found in the three other programs CRS implements with U.S. Government funds in Madagascar. CRS said it would reimburse USAID for the full amount.

Despite terminating employees and a subaward, CRS did not provide USAID with the names of the people involved. CRS officials said the organization’s legal counsel advised them not to because according to Malagasy law, a terminated employee can sue for slander unless fraud is proven in court. CRS therefore based the terminations on “professional misconduct,” not fraud, and thus did not report the people to USAID, contrary to the guidance provided by the Agency’s Compliance Division. Moreover, although CRS shared a summary of findings from the forensic audit that pertained to U.S. Government funds, it did not include findings that pertained to funds from other donors. Since CRS uses some of the same staff, systems, and internal controls to manage both its U.S. Government and non-U.S. Government funds in Madagascar, findings pertaining to all funds and donors would be relevant to USAID.

With more than $350 million in U.S. Government revenue for the year ended September 30, 2011, and tax-exempt status under section 501(c)(3) of the Internal Revenue Code, CRS should be fully transparent with USAID. By not providing the names of people implicated in fraud, USAID, other U.S. Government agencies, and other donors risk rehiring people who were terminated for professional misconduct. Given the prevalence of suspected fraud, an independent financial audit is warranted as a reasonable action. To address these concerns, we make the following recommendations.

> ***Recommendation 13.*** *We recommend that the USAID Office of Food for Peace contract an independent accounting firm to conduct a financial audit, in accordance with Office of Inspector General policies, of the Strengthening and Accessing Livelihood Opportunities for Household Impact program expenditures since the award began.*

__Recommendation 14.__ We recommend that the USAID Office of Food for Peace request that Catholic Relief Services to disclose the names of people terminated for professional misconduct to USAID's Compliance Division for suspension or debarment action.

__Recommendation 15.__ We recommend that the USAID Office of Food for Peace determine the allowability of $2,390 in ineligible questioned costs pertaining to falsified training expenses and recover from Catholic Relief Services any amounts determined to be unallowable.

__Recommendation 16.__ We recommend that the USAID Office of Food for Peace determine the allowability of $3,615 in ineligible questioned costs identified in Catholic Relief Services' forensic audit, and recover from Catholic Relief Services any amounts determined to be unallowable.

Performance Data Were Not Precise or Reliable

ADS 203.3.11.1, "Data Quality," states that "high quality data is the cornerstone for evidence based decision-making." Performance data must meet data quality standards for validity, integrity, precision, reliability, and timeliness to be useful for performance monitoring and credible for reporting. Precise data give managers enough detail to make effective decisions, and reliable data reflect stable, consistent data collection processes and analytical methods.

The AOR said she relied on annual performance data to track SALOHI's progress and to make management decisions. However, in addition to issues arising from consolidated data reporting (page 7), the data were not precise and reliable due to underreporting and annual changes to performance indicators and data collection methods.

For example, the first main objective depended on monthly weighing data to determine malnutrition rates and participation in growth monitoring. However, starting in late 2012, a CRS monitoring and evaluation specialist said CRS only recorded two weighings a year in the database—May and December—to reduce the reporting burden. Instead of including all children weighed at least one time in calculations for growth monitoring (as specified in the USAID-approved indicator definition), the SALOHI chief of party said the staff only used data from the month when the most children were weighed. In both instances, CRS omitted children weighed in other months from the database and calculations.

Application of sustainable agriculture practices or techniques was a key indicator under the second main objective. However, CARE only reported these data if farmers harvested their crops. If a drought or other event prevented harvesting, data would not be collected even if the farmers applied sustainable practices or techniques throughout the season. Moreover, CARE employees did not enter data completely. In one community, data for six out of ten farmers in a group was entered, and in another, no data for the group's eight farmers was entered—even though employees said they had done so. In addition, some CRS activities included raising livestock, yet the staff did not report any data pertaining to these activities to USAID. The SALOHI chief of party confirmed that livestock activities should have been reported.

Data on savings attributable to village savings and loan groups were underreported also. One local faith-based partner only reported savings from each group's first savings cycle, though the SALOHI chief of party said partners should report savings from the first and subsequent cycles. Other partners had not collected savings forms from the field. CRS reported eight groups in one community, but had only one form on file showing any savings. The SALOHI chief of party confirmed that partners should have collected at least one form from each group and more if they participated in multiple savings cycles.

In addition to underreporting, annual changes to the monitoring and evaluation system reduced the reliability of SALOHI data. For example, the number of performance indicators, their definitions and collection methods, and targets changed in 2010, 2011, and again in 2012. The baseline survey conducted at the beginning of the program drew its sample from the entire population, not just SALOHI beneficiaries, and was therefore not comparable to SALOHI-specific performance data captured in other years. Although SALOHI planned to conduct another population-based survey at the end of the program to compare to the baseline, the decision not to conduct one during the midterm evaluation as planned eliminated a critical tool for measuring progress and impact over time.

These instances of imprecise, unreliable performance data occurred for several reasons. Some data were underreported because neither CRS nor USAID exercised appropriate controls over data collection and reporting. They did not verify that the number of data forms collected from the field and entered into the database were appropriate for the number of activities implemented. USAID's May 2012 data quality assessment mentioned this problem, stating that it was "impossible to determine the extent of the missing forms" because there was no system to track "the number of forms collected against the number of forms planned for collection." Although CRS said it had created such a system, USAID and CRS did not verify that the system was effective or used.

CRS's monitoring and evaluation specialist said he assessed data at four partners' field offices but had not yet visited CARE or CRS's office in southern Madagascar where most problems were found. As a result, CRS was unaware that its partners were not reporting livestock activities in the south, or that CARE's reporting for the application of sustainable farming techniques depended on the harvest.

Data problems at CRS and CARE also can be attributed to the field offices' monitoring and evaluation staffing plan. CARE relied on temporary employees to enter quarterly data, and they were not supervised after the monitoring and evaluation specialist left in December 2012. Until early 2013, in the south CRS relied on its local faith-based partners' monitoring and evaluation staff, which the chief of party said was a mistake because the partners did not have strong monitoring and evaluation skills.

According to the chief of party, the SALOHI monitoring and evaluation system was designed initially by monitoring and evaluation staff without input from the technical teams. As a result, technical staff and those responsible for collecting data in the field understood and applied the tools differently than the system's designers intended, requiring modifications to the system later. USAID's recommendations from the data quality assessment and midterm evaluation in 2012 also led to changes in data collection tools, indicators, indicator definitions, and targets.

Data must be precise and reliable for informed program and budget decisions. Since CRS established and revised targets based on the prior year's performance, continuous underreporting may have led to lower annual targets and a skewed sense of what can actually be achieved with given resources. Meeting or exceeding targets that are set erroneously low is not an accurate portrayal of the program's progress. Moreover, data that is not comparable over time obstructs program assessments. The SALOHI chief of party agreed it was not accurate to compare performance data from year to year because of the many changes to the monitoring and evaluation system and the different outcomes of population- and SALOHI beneficiary-based surveys. To improve data quality, we make the following recommendation.

> ***Recommendation 17.*** *We recommend that the USAID Office of Food for Peace implement a plan with milestones to improve precision and reliability of performance data reported for its food security program in Madagascar.*

EVALUATION OF MANAGEMENT COMMENTS

In their comments on the draft report, the USAID Office of Food for Peace in Washington (FFP/W) and USAID/Madagascar agreed with and made management decisions on all 17 recommendations. Based on subsequent correspondence and supporting documentation, final action also has been taken on Recommendations 6, 8, and 14. Our detailed evaluation of management comments follows.

Recommendation 1. FFP/W agreed to formally modify the SALOHI award to require disaggregated performance reporting by implementing partner. In subsequent correspondence, FFP/W said the modification will be processed by January 9, 2014. We acknowledge management's decision.

Recommendation 2. FFP/W agreed to determine whether CRS methods of distributing maternal and child food rations meet USAID's goals and issue guidance if necessary. FFP/W has asked CRS for information on existing methods of distributing food rations in Madagascar, and expects to review this information and issue appropriate guidance, if necessary, to CRS by January 19, 2014. We acknowledge management's decision.

Recommendation 3. FFP/W agreed to evaluate potential alternative structures for food security programs in Madagascar. As part of this effort, FFP/W and USAID/Madagascar have agreed that new development food assistance programs should comprise two awards, rather than one, and cover fewer regions. Applications for these awards are expected to be due in early April 2014. According to FFP/W, documents from the bidding process, like the technical evaluation committee memorandum, issue letters to applicants, and applicants' response to those letters, will serve as the evaluation of alternative structures and the determination of the most appropriate option. Final action is expected by August 15, 2014. We acknowledge management's decision.

Recommendation 4. FFP/W agreed to clarify roles and responsibilities for program monitoring in the absence of a FFP officer in Madagascar. Accordingly, FFP/W has drafted a document outlining roles and responsibilities for various officials and intends to draft an action plan specifying monitoring responsibilities in the event of an extended absence of an officer in Madagascar. FFP/W expects to complete these documents and clear them with USAID/Madagascar by January 30, 2014. We acknowledge management's decision.

Recommendation 5. FFP/W agreed to track recommendations from program evaluations and data quality assessments. It has adopted a checklist to track recommendations from the SALOHI midterm evaluation and has asked CRS for an action plan to address data quality issues. Upon receipt, the FFP regional monitoring and evaluation specialist will work with FFP/W and USAID/Madagascar to develop an updated monitoring plan and tools for tracking and monitoring data quality issues. Final action is expected by January 30, 2014. We acknowledge management's decision.

Recommendation 6. FFP/W agreed to require CRS to update its IEE to include pesticide use. In its comments, FFP/W said the bureau environmental officer would provide guidance to CRS by December 31, 2013. In subsequent correspondence, FFP/W provided evidence that such guidance was sent to CRS on December 20, 2013, along with a request that an amendment to the IEE be submitted in January. Consequently, final action has been taken.

Recommendation 7. FFP/W agreed to verify that its FFP officers have received environmental compliance training. It provided evidence that the AOR for SALOHI has registered for the 2-day environmental compliance workshop sponsored by USAID University to be held January 28 and 29, 2014. Final action is thus expected on January 29, 2014. We acknowledge management's decision.

Recommendation 8. FFP/W agreed to implement a plan to confirm that FFP recipients adhere to branding and marking plans. It also developed a branding and monitoring checklist that USAID employees can use on any site visits to activities funded by FFP in Madagascar, starting on January 1, 2014. Based on management comments and the supporting documentation provided, final action has been taken.

Recommendation 9. Both FFP/W and USAID/Madagascar agreed to disseminate guidance on resolving commodity losses and issues with commodity quality. To this end, FFP/W will issue an information bulletin for FFP partners and staff on these topics and develop a new policy and procedures manual that addresses them as well. Final action on both actions is expected by July 31, 2014. We acknowledge management's decision.

Recommendation 10. FFP/W agreed to implement a plan to resolve outstanding commodity losses and issues of sorghum quality in Madagascar. It will match the contract numbers of all sorghum shipped to Madagascar since 2009 with testing records maintained by the U.S. Department of Agriculture to verify that the sorghum was within specifications. Although FFP/W has reached a management decision, if testing records are not available for all sorghum shipped, a new plan must be developed and implemented. FFP/W expects to take final action by January 31, 2014. We acknowledge management's decision.

Recommendation 11. FFP/W agreed to determine the allowability of $81,091 arising from commodity losses and sustain the full amount. It provided a letter from CRS in which CRS agreed to reimburse USAID $81,091 in ineligible questioned costs and evidence that $46,968 had been remitted. In subsequent communication, FFP/W stated that it plans to collect the remaining $34,123 by January 31, 2014. We acknowledge management's decision.

Recommendation 12. USAID/Madagascar agreed to include the mission's FFP office as an assessable unit in its FMFIA assessment process. The mission said the assessment would include commodity management and other internal controls over FFP activities in Madagascar. Final action is expected by July 31, 2014. We acknowledge management's decision.

Recommendation 13. FFP/W agreed to contract an independent audit of SALOHI in accordance with OIG policies. Working with USAID/Madagascar, FFP/W expects the contract to be in place by February 28, 2014. We acknowledge management's decision.

Recommendation 14. FFP/W agreed to request that CRS disclose the names of people terminated for professional misconduct for suspension or debarment action and provided evidence that a letter was sent to CRS on December 20, 2013. Accordingly, final action has been taken.

Recommendation 15. FFP/W agreed to determine the allowability of $2,390 in ineligible questioned costs pertaining to falsified training expenses and recover unallowable costs. FFP/W sustained and CRS agreed to reimburse USAID for the full amount. The target date for collection is January 30, 2014. We acknowledge management's decision.

Recommendation 16. FFP/W agreed to determine the allowability of $3,615 in ineligible questioned costs identified in CRS's forensic audit and recover unallowable costs. FFP/W sustained and CRS agreed to reimburse USAID for the full amount. The target date for collection is January 30, 2014. We acknowledge management's decision.

Recommendation 17. FFP/W agreed to implement a plan to improve precision and reliability of performance data reported for its food security program in Madagascar. As part of its response to Recommendation 5, FFP/W planned to develop an updated monitoring plan to address data quality issues, which it expects to implement by January 30, 2014. We therefore acknowledge management's decision.

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 food security program in Madagascar is achieving its goal of reducing food insecurity by improving the nutritional and health status of children younger than 5, improving the livelihoods of food-insecure households, and increasing community resilience to economic shocks and natural disasters in southern and eastern Madagascar. The total estimated cost of the award was $83.8 million. It included $49.8 million for program expenses and a $5.5 million cost-share requirement, which USAID later reduced to $4.6 million. The award also provided for 27,180 metric tons of food to be distributed directly to beneficiaries and 58,710 metric tons for monetization.

As of June 30, 2013, USAID had authorized $47.5 million for program expenses and SALOHI had expended $39.8 million. CRS had contributed $3.7 million of its cost-share obligation. Food for Peace had provided about 60,000 metric tons of food for direct distribution and monetization, which generated $21.6 million included in the authorized amount for program expenses.

Given the complexities of the program, travel distances between activity sites, and time allotted for the audit, the audit team focused on sites and activities managed by CRS and one of its local faith-based organizations (Bureau de Développement de l'Ecart de Mananjary), ADRA, and CARE. These partners were selected judgmentally based on their percentage of budget and expenditures, location, and interviews with USAID staff. The audit covered 81 percent of obligations and 84 percent of expenditures as of June 30, 2013.

In planning and performing the audit, we assessed the significant internal controls that USAID/Madagascar and FFP used to monitor program activities, including monitoring and evaluation plans, performance management plans, and progress and financial reports. We also reviewed USAID/Madagascar's FMFIA report for FY 2012 and prior audit reports to identify internal control and other issues that could be relevant to this audit.

We performed the audit in Madagascar from May 21 through June 7, 2013. We conducted fieldwork at USAID/Madagascar in Antananarivo and at implementing partners and subrecipient offices, warehouses, and selected project sites in or near Ambosary, Ambositra, Ambovombe, Fort Dauphin, and Mananjary.

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/Madagascar officials, the FFP agreement officer and AOR, implementing partners and selected subrecipients, and program beneficiaries. Site visits included five commodity warehouses (two for ADRA, and one each for Bureau de Développement de l'Ecart de Mananjary, CARE, and CRS) and six communities (ADRA and CRS each had two, and Bureau de Développement de l'Ecart de Mananjary and CARE each had one). At the warehouses, we assessed storage conditions, performed physical counts, and reviewed internal controls over food commodities and supporting documentation. At the community level, we assessed compliance with branding and marking plans, and we 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 there, portion of reported results compared to other sites in the area, and accessibility.

To validate performance data, we judgmentally selected 7 of the 42 performance indicators that SALOHI reported on to USAID in FY 2012 (Appendix III). We selected these indicators for testing based on relevance to the program's main objectives. For selected indicators, we examined data collection methods and compared the partners' database to a judgmentally selected sample of source documentation based on the field offices we visited. Since these samples were selected judgmentally, the results cannot be projected to the population from which they were drawn. For the performance indicators selected, we obtained the disaggregated data from CRS to assess performance by consortium partner.

To verify internal controls over food aid, we reviewed documentation showing the amount of food that subrecipients reported distributing for Food for Assets and maternal and child nutrition in March 2013 (ADRA, Bureau de Développement de l'Ecart de Mananjary, and CARE). We also reviewed documentation from two 2012 Food for Work projects because CRS had not distributed any rations recently in the selected communities. On the day of site visits, we counted the beneficiary thumbprints that corresponded to the distributions in our sample and found no discrepancies. To verify whether the distributed food reached the intended beneficiaries, we judgmentally selected names from the distribution list and spoke with individuals in their communities to confirm their existence, and that they had worked for and received food.

Prior to fieldwork, RIG/Pretoria learned that SALOHI had sustained several commodity losses due to fraud or misconduct. To follow up on these problems, the audit team interviewed USAID and partner staff, and reviewed the commodity loss documentation to assess USAID's actions and the amount lost. In addition, two incidents of professional misconduct by SALOHI staff in the southern region led to the release of one CRS local faith-based organization and seven CRS employees. We interviewed USAID and partner staff to assess USAID's monitoring and subsequent action in the events.

MANAGEMENT COMMENTS

December 18, 2013

MEMORANDUM

TO: Regional Inspector General/Pretoria, Robert W. Mason

FROM: USAID Office of Food for Peace Director, Dina Esposito /s/
USAID/Madagascar Mission Director, Susan Riley /s/

SUBJECT: Management Responses to Draft Audit of USAID's Food Security Program in Madagascar (Report No. 4 962-14-002-P)

On November 13, 2013, the Office of Food for Peace in Washington (FFP/W) and USAID/Madagascar received the draft report on the above-referenced audit. The draft audit report contains seventeen recommendations. The purpose of this memorandum is to provide management responses and request a management decision on each of the seventeen recommendations. We have clearly stated our position on each recommendation with detailed explanation provided as needed.

Recommendation 1. We recommend that the USAID Office of Food for Peace modify the Strengthening and Accessing Livelihoods Opportunities for Household Impact cooperative agreement to require Catholic Relief Services to disaggregate annual performance data, progress reports, and distribution plans by implementing partner.

Response to Recommendation 1: FFP/W agrees with the recommendation. FFP/W will formally modify the subject award to require Catholic Relief Services (CRS) to disaggregate annual performance data, progress reports, and distribution plans by implementing partner. The draft modification is presented as Attachment 1. The formal modification will be approved by the Agreement Officer by December 31, 2013.

Recommendation 2. We recommend that the USAID Office of Food for Peace determine whether the various methods of distributing maternal and child food rations currently used in Madagascar meet USAID's goals and issue guidance to Catholic Relief Services to revise the distribution strategy as necessary.

Response to Recommendation 2: FFP/W agrees with the recommendation. FFP/W has sent a formal request letter to CRS requesting the current methods of distributing maternal and child food rations currently used in Madagascar (see Attachment 2 Draft Letter to CRS). FFP will send the attached letter by December 19, 2013 and is requesting a response by close of business on January 2, 2014. The Maternal and Child health and nutrition staff at FFP/W will review these approaches and issue appropriate guidance to CRS. This guidance will be provided to CRS by January 10, 2014.

Recommendation 3. We recommend that the USAID Office of Food for Peace evaluate potential alternative structures for its future food security programs in Madagascar, determine the most appropriate option, and document the results.

Response to Recommendation 3: FFP/W agrees with the recommendation. As noted in the recently released the Fiscal Year 2014 Draft Country Specific Information (CSI) for new development food assistance programs in Madagascar (see Attachment 3), FFP/W and USAID/Madagascar have agreed that in Madagascar there should be two awards (see summary of page 1 of CSI), instead of one large award, and the geographic focus has been narrowed to six regions (see page 3) of the CSI. The CSI and the overarching Request for Applications (RFA) will be finalized and officially posted on or about January 2, 2014, with applications due on or about April 2, 2014. The draft RFA currently states, "Consortia of private voluntary organizations and/or cooperatives are neither encouraged nor discouraged from submitting applications. In the case of a consortium, the actual applicant must be the consortium lead and should identify any other members of the consortia or individuals tied to the implementation of the application, along with all sub-awardees. The respective roles (e.g., targeting, food aid distribution, etc.) of any other members of the consortia or individuals, including all sub-awardees, must be described and separate budgets must be attached for each." During the Technical Evaluation Committee (TEC) process, the management sections of the applications will be reviewed including the management structure, which is part of the Management and Logistics section of the selection criteria. The TEC memo, issues letters, and issue letter responses from the applicants will serve as documentation of the evaluation of the management structure. These documents (the TEC memo, issues letter and applicants response to the issues letter) should be finalized by August 15, 2014.

Recommendation 4. We recommend that the USAID Office of Food for Peace clarify, in writing, roles and responsibilities for program monitoring in the absence of a Food for Peace officer at USAID/Madagascar.

Response to Recommendation 4: FFP/W agrees with the recommendation. FFP/W already has drafted a document outlining the roles and responsibilities of Country Backstop Officers/Agreement Officer Representatives, FFP Officers based in Mission and Officers based in Regional Missions (See Attachments 4, 5, and 6), that will be shared and cleared with the USAID/Madagascar Mission by January 30, 2014. However, in case of an extended absence of a FFP Officer in Madagascar, FFP/W and USAID Madagascar will agree to an action plan detailing the roles and responsibilities for program monitoring by January 30, 2014. This action plan prepared jointly by USAID/Madagascar and FFP/W will include, but not be limited to, steps to inform the appropriate individuals of the potential coverage gap, and division of responsibilities between FFP/W, USAID/Madagascar, and the USAID Regional Mission in Pretoria regarding all aspects of program monitoring and oversight normally done at the Mission level.

Recommendation 5. We recommend that the USAID Office of Food for Peace adopt a plan to track and implement recommendations emanating from program evaluations and data quality assessments in Madagascar.

Response to Recommendation 5: FFP/W agrees with the recommendation. FFP/W has developed a checklist of the mid-term recommendations (see Attachment 7) detailing each recommendation, steps taken thus far to address the recommendations, and any follow-up necessary. For the data quality assessment, FFP/W has requested, as part of the Annual

Results Report, a Monitoring and Evaluation Action Plan from CRS. This document is due by January 2, 2014. The FFP Regional Monitoring and Evaluation Specialist will work with USAID/Madagascar and FFP/W to develop an updated monitoring plan and develop a dashboard for data quality issues. This updated monitoring plan and dashboard will be completed by January 30, 2014. Furthermore, similar tracking tools will be developed for mid-term evaluations and data quality assessments of any follow-on FFP development programs in Madagascar.

Recommendation 6. We recommend that the USAID Office of Food for Peace require Catholic Relief Services to update its initial environmental examination to include a section on warehouse fumigation and other pesticide use.

Response to Recommendation 6: FFP/W agrees with the recommendation. As indicated in the December 3, 2013 e-mail from the Democracy Conflict and Humanitarian Affairs Bureau Environmental Officer (BEO), Ms. Erika Clesceri, (See attachment 8) the BEO will provide formal guidance to CRS on developing an update to the record concerning implementation of Programmatic Environmental Assessment (PEA) requirements for the SALOHI program. For any additional fumigation events that CRS will conduct, will be in keeping with the findings of the PEA. This formal guidance will be provided by the BEO to CRS by December 31, 2013.

Recommendation 7. We recommend that the USAID Office of Food for Peace verify that its Food for Peace officers have received environmental compliance training.

Response to Recommendation 7: FFP/W agrees with the recommendation. The Agreement Officer's Representative (AOR) is registered to attend the USAID University two day Environmental Compliance workshop schedule for January 28-29, 2014. Please find attachment 9, the AOR's confirmation of registration e-mail for the course. The course will be completed by January 29, 2014.

Recommendation 8. We recommend that the USAID Office of Food for Peace implement a plan to confirm that its recipients in Madagascar adhere to approved branding and marking plans.

Response to Recommendation 8: FFP/W agrees with the recommendation. FFP/W has developed a branding and marking plan field monitoring checklist to be used by any USAID staff visiting FFP-funded development activities in Madagascar (see Attachment 10). This checklist will be used starting January 1, 2014, for all site visits. If any issues are identified, the person filling out the checklist will report this to the AOR as indicated on the form.

Recommendation 9. We recommend that the USAID Office of Food for Peace and USAID/Madagascar disseminate guidance clearly outlining procedures and responsibilities for resolving commodity losses and issues with commodity quality.

Response to Recommendation 9: FFP/W and USAID Madagascar agree with the recommendation. FFP/W is circulating a Food for Peace Information Bulletin to be sent out to all FFP partners and FFP staff regarding the procedures for reporting commodity losses and commodity (see Attachment 11 Draft FFPIB). This document will be sent out by February 28, 2014. Additionally, FFP/W is developing a new policy and procedures manual (P&PM). The P&PM will include a section on how FFP Officers should handle commodity losses and commodity quality issues internally. The first draft of the P&PM is expected in

March 2014 and the document is expected to be finalized by July 31, 2014.

Recommendation 10. We recommend that the USAID Office of Food for Peace implement a plan with milestones to resolve outstanding commodity losses and issues of sorghum quality in Madagascar.

Response to Recommendation 10: FFP/W agrees with the recommendation. FFP/W has asked CRS to provide the contract numbers for all sorghum shipped to Madagascar since the start of the program in 2009. These contract numbers will then be compared with the U.S. Department of Agriculture's Federal Grain Inspection Service documentation, which lays out the commodity requirements and the testing conducted on the commodity to ensure that the sorghum was within specifications. This action is expected to be completed by January 31, 2014.

Recommendation 11. We recommend that the USAID Office of Food for Peace determine the allowability of $81,091 in ineligible questioned costs arising from commodity losses and recover from Catholic Relief Services any amounts determined to be unallowable.

Response to Recommendation 11: FFP/W agrees with the recommendation. As of December 9, 2013 CRS has already reimbursed the U.S. Government in the amount of $46,968.19 for commodity losses (see attachments 12a through 12h). Furthermore, CRS has submitted a letter stating its intent to reimburse the U.S. Government the full amount, $81,091, for commodity loses (see Attachment 13) identified as questioned costs in the RIG audit. Finally, on November 27, 2013, the Agreement Officer issued a bill of collection for $19,734 to CRS for the losses incurred by CRS's sub-awardee Adventist Development and Relief Agency (see attachment 14). It is expected that CRS will have reimbursed the U.S. Government $81,091 in ineligible questioned costs arising from commodity loses by December 31, 2013.

Recommendation 12. *We recommend that USAID/Madagascar implement a plan to include steps on commodities and engage Food for Peace staff in its annual Federal Managers' Financial Integrity Act of 1982 internal control assessments.*

Response to Recommendation 12: USAID/Madagascar agrees with the recommendation and will put in place the following action plan and target date. Starting FY 2014, the Food for Peace Office will be established as an assessable unit within the Federal Managers' Financial Integrity Act (FMFIA) checklist. Control risks will be assessed for the operations of the office, including commodity management. FMFIA check list and other tools will be used to evaluate internal control over Food for Peace operations. The Mission will develop a corrective action plan to address any deficiencies found during the review process and will track the progress of corrective actions to ensure timely and effective results.

The plan will be completed by July 2014 with the completion of the FY 2014 FMFIA process and Mission Director annual certification.

Recommendation 13. *We recommend that the USAID Office of Food for Peace contract an independent accounting firm to conduct a financial audit, in accordance with Office of Inspector General policies, of the Strengthening and Accessing Livelihood Opportunities for Household Impact program expenditures since the award began.*

Response to Recommendation 13: FFP/W agrees with this recommendation. FFP/W will work with the Mission to contract an independent audit. The audit will be contracted by February 28, 2014 using the Agency Contracted Audit (ACA) process as outlined in this document http://oig.usaid.gov/sites/default/files/ACA_Process_07112013.pdf. It is expected that the audit report would be issued by May 1, 2014.

Recommendation 14. *We recommend that the USAID Office of Food for Peace request Catholic Relief Services to disclose the names of individuals terminated for professional misconduct to USAID's Compliance Division for suspension or debarment action.*

Response to Recommendation 14: FFP/W agrees with this recommendation. The Agreement Officer will issue a letter to CRS requesting CRS disclose the names of the individuals terminated for professional misconduct to the USAID's Compliance Division for suspension or debarment action (see Attachment 15). This letter will be sent by December 19, 2013, instructing CRS to provide the names to the Compliance Division by January 19, 2014.

Recommendation 15. *We recommend that the USAID Office of Food for Peace determine the allowability of $2,390 in ineligible questioned costs pertaining to falsified training expenses and recover from Catholic Relief Services any amounts determined to be unallowable.*

Response to Recommendation 15: FFP/W agrees with this recommendation. CRS has already submitted a letter (see Attachment 16) to FFP/W stating their intention to reimburse the U.S. Government in the amount of $2,390 in questioned cost pertaining to falsified training expenses. It is expected that CRS will reimburse the money by January 30, 2014.

Recommendation 16. *We recommend that the USAID Office of Food for Peace determine the allowability of $3,615 in ineligible questioned costs identified in Catholic Relief Services' forensic audit, and recover from Catholic Relief Services any amounts determined to be unallowable.*

Response to Recommendation 16: FFP/W agrees with this recommendation. CRS has already submitted a letter (see Attachment 17) to FFP/W stating their intention to reimburse the U.S. Government in the amount of $3,615 in questioned costs identified in CRS's forensic audit. It is expected that CRS will reimburse the money by January 30, 2014.

Recommendation 17. *We recommend that the USAID Office of Food for Peace implement a plan with milestones to improve precision and reliability of performance data reported for its food security program in Madagascar.*

Response to Recommendation 17: FFP/W agrees with this recommendation. As stated in the response to Recommendation 5, assessment FFP/W has requested as part of the Annual Results Report a Monitoring and Evaluation Action Plan from CRS. This document is due December 20, 2013. The FFP Regional Monitoring and Evaluation Specialist will work with USAID/Madagascar and FFP/W to develop an updated monitoring plan and develop a dashboard for data quality issues. This updated monitoring plan and dashboard will be completed by January 30, 2014.

Conclusion
This Memorandum provides the FFP/W and USAID/Madagascar management response and requests a management decision on each of the seventeen recommendations outlined in RIG/Pretoria's Memorandum dated November 13, 2013.

Selected Fiscal Year 2012 Performance Indicators (Audited)

Performance Indicator	Consolidated Data			Result Disaggregated by Partners of the Program Coordination Unit			
	Target	Reported Result	% Achieved	CRS*	ADRA	CARE	LOL
Percentage of underweight children 0-59 months†	25	24.2	103	22.4	30.4	19.5	21.9
Percentage of children 0-59 months of age who participate in growth monitoring and promotion	65	62	95	61	66	68	53
Percentage of farmers who used as least two sustainable agriculture practices and/or technologies in the most recent growing season	30	29	97	25	38	9	26
Average value of savings mobilized by village savings and loan groups	265,000	365,898	138	321,777	0	396,587	606,942
Percent of communities with disaster prevention and mitigation plans	75	56	75	73	43	99	10
Kilometers of transportation infrastructure constructed or repaired through U.S. Government assistance	223	191	86	42	75.5	41	32.3
Hectares of irrigated land created or rehabilitated by Food for Assets	1,750	5,809	332	360	3,151	1,288	1,010

* Reported results for CRS include the results of its five local faith-based partners.

† This is an impact indicator and will be measured formally only at the beginning and end of the program. Therefore, an annual target was not established for FY 2012, and FY 2012 disaggregated results are shown from data CRS collects and maintains internally. The overall target is 25 percent, 10 percent less than the baseline.

U.S. Agency for International Development
Office of Inspector General
1300 Pennsylvania Avenue, NW
Washington, DC 20523
Tel: 202-712-1150
Fax: 202-216-3047
http://oig.usaid.gov