



# OFFICE OF INSPECTOR GENERAL

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## AUDIT OF USAID'S FOOD FOR PEACE ACTIVITIES IN MAURITANIA

AUDIT REPORT NO. 7-682-12-005-P  
APRIL 11, 2012

DAKAR, SENEGAL



*Office of Inspector General*

April 11, 2012

**MEMORANDUM**

**TO:** Office of Food for Peace Director, Dina Esposito  
USAID/Senegal Mission Director, Henderson Patrick

**FROM:** Regional Inspector General/Dakar, Gerard Custer

**SUBJECT:** Audit of USAID's Food for Peace Activities in Mauritania  
(Report No. 7-682-12-005-P)

This memorandum transmits our final report on the subject audit. We have carefully considered your comments on the draft report and have included them in their entirety in Appendix II.

The report contains five recommendations to strengthen the ability of USAID's Office of Food for Peace to monitor and implement its program in Mauritania. With the information you provided in your response to the draft report, we determined that final action has been taken on Recommendations 1, 2, 3, and 5. Recommendation 4 remains without a management decision. Please provide us with a written response within 30 days on actions planned or taken to implement Recommendation 4. Recommendations 1, 2, 3, and 5 are closed on issuance of this report.

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

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## Abbreviations

The following abbreviations appear in this report:

ADS	Automated Directives System
CFR	Code of Federal Regulations
FY	fiscal year
GAO	Government Accountability Office
HRW	hard red winter wheat
IPTT	indicator performance tracking table
RIG	Regional Inspector General
SRW	soft red winter wheat
WFP	World Food Programme

# SUMMARY OF RESULTS

The U.S. Government created the Food for Peace program in 1954 through the Agricultural Trade Development Assistance Act, now known as the Food for Peace Act.<sup>1</sup> The act aims to “promote the foreign policy of the United States by enhancing the food security of the developing world through the use of agricultural commodities and local currencies.” Under the act, U.S. Government agencies may ship agricultural commodities to developing countries and either monetize<sup>2</sup> the commodities or directly distribute them to program beneficiaries.

According to a March 2010 joint World Food Programme (WFP)-Government of Mauritania study, Mauritania suffers from a structural food deficit.<sup>3</sup> This means, according to WFP,<sup>4</sup> that the country’s limited means for food production, underuse of agricultural capacity, susceptibility to desertification, and low agricultural outputs have created reliance on food imports to meet nutritional needs. As food prices have risen while household incomes in Mauritania’s rural areas have declined, food has become less accessible. This situation has increased the risk of food insecurity in what is already one of the world’s least developed countries.

To address this challenge, USAID’s Office of Food for Peace signed a 5-year cooperative agreement with Counterpart International (Counterpart) to implement the Community Action, Nutrition, and Livelihoods Program. The program is designed to strengthen human capabilities in health and nutrition—that is, to equip people in four regions of Mauritania to improve health, nutrition, and hygiene practices; provide for household needs; and mitigate food insecurity. Under the award, signed in October 2006, USAID agreed to provide goods and cover shipping and administrative costs amounting to \$20.3 million. At the time of the audit, USAID had increased that amount to \$22.3 million and given Counterpart a 1-year, no-cost extension.

As of January 31, 2012, USAID had provided Counterpart with 39,480 metric tons<sup>5</sup> of food for the program. Of this amount, Counterpart monetized 35,370 metric tons of wheat, earning \$10.5 million. It directly distributed 4,110 metric tons of vegetable oil, bulgur, corn-soy blend, and lentils. At the time of the audit, USAID officials said they had no plans to initiate a new Food for Peace activity in Mauritania but were considering another extension of the current program.

The objective of the audit was to determine whether USAID’s Food for Peace Program in Mauritania was achieving its goals related to strengthening human capabilities in health and nutrition. The program appeared to be improving health and nutrition capabilities in all of the communities visited. Representatives of targeted communities credited the program with increasing beneficiaries’ ability to treat mild malnutrition and minor health problems without

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

<sup>2</sup> USAID’s Monetization Field Manual defines monetization as “the selling of agricultural commodities to obtain foreign currency for use in U.S. assistance programs.” In this program, USAID purchased wheat in the United States and shipped it to Mauritania, where the implementing partner sold it to generate local currency for program implementation.

<sup>3</sup> “Note de synthèse: République Islamique de Mauritanie, Etude sur le Suivi de la Sécurité Alimentaire des Ménages,” March 28, 2010.

<sup>4</sup> WFP, Mauritania Overview, <http://www.wfp.org/countries/Mauritania/Overview>.

<sup>5</sup> One metric ton is equal to 1,000 kilograms or 2,204.6 pounds.

travelling long distances to health posts and to identify cases that need urgent treatment from medical professionals. Representatives also noted that improved hygiene reduced the number of cases of diarrhea among children in their communities. The program initiated routine testing to identify mildly and severely malnourished children. According to unaudited Counterpart data, communities identified 8,283 malnourished children in fiscal year (FY) 2008, and 6,748 in FY 2011, suggesting a 19 percent decrease among children in the program's intervention area.

However, it was not possible to confirm that the program was meeting its goals because of problems affecting the performance monitoring system for the first 4 years of implementation.

- The system that Counterpart used for collecting and reporting performance data for the years prior to FY 2011 was faulty, causing the results for those years to be invalid and in some cases unreliable (page 4).
- The indicators included in the program's most comprehensive tool for monitoring performance, the indicator performance tracking table (IPTT), did not adequately represent program activities for FY 2010 and FY 2011 (page 5).

During the first 4 years of implementation, the program faced challenges including delays in obtaining a host-country agreement;<sup>6</sup> a military coup in Mauritania, which necessitated revisions to program activities; limited USAID oversight; and high turnover of key program personnel. Moreover, USAID emphasized the difficult conditions affecting work in Mauritania, including poor roads, long distances between sites, and limited capacities of local staff.

In addition to performance monitoring weaknesses, the auditor identified the following implementation problems:

- The baseline survey results were irrelevant and unreliable (page 6). The consultant hired to conduct the baseline survey gathered regional information, not the local information needed to measure program performance. Subsequent work revealed that the baseline values differed markedly from other regional data, indicating that the baseline values were unreliable. Consequently, some of the program targets were unrealistic, and evaluating the program's impact will be difficult and costly.
- Cost recovery<sup>7</sup> from monetization was lower than projected (page 8). Instead of recovering 88 percent of procurement and shipping costs through commodity sales, the program recovered only 67 percent. Estimates of shipping costs were unrealistic, the kind of wheat shipped one year commanded a very low price, and government food subsidies forced the usual buyers of wheat to renege on their agreements and program officials to negotiate lower sales prices. The lower-than-expected cost recovery meant USAID had to provide more cash than budgeted to the program.
- Commodity quantities on hand differed from warehouse records (page 10). Neither Counterpart employees nor beneficiaries could provide documentation to show that they had

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<sup>6</sup>An agreement between an implementing partner, such as Counterpart, and the foreign government of the recipient country that authorizes the partner to conduct Food for Peace activities there in a manner consistent with the terms and conditions set forth in the Code of Federal Regulations (22 CFR 211).

<sup>7</sup> In this report, cost recovery means the total amount earned from selling Food for Peace commodities divided by the total cost to procure and ship them to Mauritania.

done physical counts to validate inventory on hand, and the auditor observed thousands of bags of corn-soy blend stacked irregularly, precluding a physical count. Because Counterpart uses warehouse records to decide when to distribute commodities, inaccurate records could interfere with keeping adequate supplies in stock.

To resolve these problems, the Regional Inspector General/Dakar (RIG/Dakar) recommends that USAID's Office of Food for Peace:

1. Establish and implement a plan to provide more oversight to partners throughout the baseline survey process (page 7).
2. Make a management decision on the allowability of the ineligible questioned cost of approximately \$36,171 for the program baseline survey, and collect from the recipient any amounts determined to be unallowable (page 8).
3. Establish and implement a plan to require an analysis on the suitability and use of specific types of commodities before awarding any new Food for Peace programs in Mauritania (page 10).
4. Address the use of realistic shipping rate estimates in program proposals and budgets in its upcoming revision to the Monetization Field Manual (page 10).
5. Work with the partner to develop and implement a system of periodic, documented inventory counts for all warehouses where program commodities are stored (page 11).

Detailed findings appear in the following section in order of their relevance to the audit objective. Appendix I contains information on the scope and methodology. Appendix II contains management's comments in their entirety, and our evaluation of management's comments is included on page 12 of the report.

# AUDIT FINDINGS

## Some Performance Data Was Invalid or Unreliable

USAID's Automated Directives System (ADS) states that performance management data should be valid and reliable (ADS 203.3.5.1, "Data Quality Standards").

USAID used various tools to monitor Counterpart's performance. The most comprehensive resource was the IPTT. Counterpart included this document in its annual performance reports to USAID to represent program accomplishments. The IPTT included 39 indicators in 2010 and 38 in 2011.

The auditor found that some of the data reported in Counterpart's 2010 and 2011 IPTTs for the program did not meet USAID's standards for validity and reliability. Specifically, the auditor reviewed results reported on eight IPTT indicators for FYs 2010 and 2011 and noted the following shortcomings.

**Validity.** According to ADS, data should represent intended results clearly and adequately in order to be valid. However, for the indicator *Number of communities with community action plan to improve community infrastructure to support improved food security*, Counterpart reported the total number of communities that had *any* community infrastructure projects listed in their plans, failing to consider whether the activities would support improved food security. While Counterpart reported 75 for this indicator in both FY 2010 and 2011, the valid totals for those years were 26 and 39. Counterpart explained that the errors occurred because the staff collecting the data did not understand the indicator.

**Reliability.** ADS states that data collection and analysis should be stable and consistent. One of the indicators that the auditor selected for review was *Number of months of adequate food provisioning*. Counterpart collected data on this indicator—measuring the average number of months per year that program beneficiaries had sufficient food—through an annual survey of households. The FY 2010 IPTT reported a result of 9 months of adequate food provisioning per year, while the FY 2011 IPTT reported a result of 3.3 months. When asked about the significant decrease, Counterpart stated that the FY 2010 result was likely not reliable because those conducting the survey may not have understood the best way to frame the question when posing it to beneficiaries. In some cases, they also may have reported the average number of months of *inadequate*, instead of adequate, food provisioning. Counterpart reportedly corrected this problem in 2011, resulting in the lower (but more accurate) result.

Also in terms of reliability, ADS states that different analysts should come to the same result when analyzing reported data. However, in attempting to compare 13 reported results<sup>8</sup> for FYs 2010 and 2011 with the supporting documentation, the auditor found that 8 of the results were not supported. Data entry errors, failure to document some training events, and insufficient understanding of the data collection process among program implementers led to the lack of support.

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<sup>8</sup> Results for eight indicators collected over 2 years minus results for three discontinued indicators.

USAID did not address problems related to data quality until 2011 because of three challenges that affected program implementation. First, at the start of the program, Counterpart struggled to obtain its host-country agreement with the Government of Mauritania. The U.S. Code of Federal Regulations (22 CFR 211.3(b)) requires award recipients to establish this type of agreement whenever appropriate and feasible before starting implementation. Counterpart finally signed the agreement 10 months after signing the cooperative agreement with USAID. Second, a military coup followed in August 2008, requiring Counterpart to revise its approach to a significant portion of program activities. Counterpart had to cease activities that involved cooperation with Government of Mauritania health agencies to avoid working with a government that was not democratically elected. Finally, USAID lacked adequate oversight resources in Mauritania until December 2010, when USAID recruited a Food for Peace officer whose main task was to monitor the program. This shortage of personnel resulted in decreased oversight of the program by USAID, which limited Counterpart's access to experts on USAID's standards for performance monitoring and data quality.

Because of the invalid and unreliable data, the auditor was not able to make an accurate assessment about whether the program was meeting its goals. Moreover, these data problems could limit the information available to USAID for decisions about future program design or partner selection.

Following a thorough data quality assessment performed by USAID in May 2011, Counterpart made notable improvements in performance monitoring. This included clarifying what data to collect for each indicator and developing and documenting a system for reporting and verifying data. The auditor interviewed Counterpart staff members at all levels of the data collection process, who reported that their understanding of what data to collect and how to collect it had improved over the previous year. The auditor also observed the data collection process and concluded that the improvements would increase the quality of the program's data. Because actions already taken have addressed this problem, no recommendation is needed.

## **Implementer's Performance**

### **Tracking Tool Did Not Sufficiently Represent Program Activities**

ADS (203.3.3.1, "Contents of a Complete Performance Management Plan") requires that the indicators in a program's performance management plan "should be chosen with care so that a minimum number of indicators accurately reflect the performance of the result they are intended to track."

A 2011 data quality assessment that USAID conducted on the indicators included in Counterpart's IPTT identified 12 indicators that could be removed for various reasons, including the following.

- One indicator, *Percent of children under 5 regularly receiving Vitamin A capsules*, did not pertain directly to a Counterpart activity. The Government of Mauritania Ministry of Health was responsible for Vitamin A distributions. Counterpart only provided the capsules and some technical support.
- Counterpart added the indicator *Percent decrease in animal mortality rate* based on a suggestion from the midterm review. However, USAID and Counterpart agreed that the



program's interventions are unlikely to affect the animal mortality rate, even in the zones where the program operates.

- The IPTT included three indicators when only one was necessary: (1) *Number of community members completing participatory awareness raising training* (training related to developing a community action plan), (2) *Number of communities completing a community action plan*, and (3) *Number of communities with a community action plan to improve community infrastructure to support improved food security*. To be counted for the third indicator, a community would have already been counted for the first two. Since the program was primarily interested in the third indicator, the first two were unnecessary.

Furthermore, for much of the program, Counterpart staff members did not understand the IPTT. The auditor discussed program monitoring with Counterpart personnel responsible for collecting, consolidating, verifying, and reporting data. These discussions confirmed that, for the first 3 to 4 years of implementation, the performance monitoring process was unclear. Some Counterpart personnel stated that during this time they did not always know why they were collecting data or how to collect it.

USAID and Counterpart officials explained that the process of developing relevant, measurable indicators had been a challenge for the first 3 years, largely because of the political and oversight issues described in the previous section. While USAID had little control over the local political environment, it did have control over the level of oversight and personnel resources in Mauritania. Although USAID attempted to monitor the program remotely and with periodic visits, the auditor, Food for Peace personnel, and Counterpart staff agreed that there was no substitute for the oversight provided by an in-country Food for Peace officer.

Following the data quality assessment that USAID conducted in May 2011, Counterpart corrected these problems by developing a revised IPTT for FY 2012 that included 28 indicators pertinent to program activities. Unfortunately, the problems with the IPTT indicators during the first 3 to 4 years of implementation will make it difficult to assess the program's impact over the entire period of implementation. If USAID had put adequate monitoring personnel in place earlier, the program might have addressed this problem sooner. However, because additional personnel now provide oversight, no recommendation is needed.

## **Baseline Survey Results Were Irrelevant and Unreliable**

ADS requires program personnel to complete a performance management plan with relevant indicators and baseline values once they have executed an award agreement (ADS 203.3.3, "Performance Management"), to provide a baseline value for each indicator (ADS 203.3.3.1(b)), and to measure baseline values using the same data collection source and method that will be used to collect actual performance data (ADS 203.3.4.5, "Setting Performance Baselines and Targets").

Counterpart hired a consultant to perform a baseline study in September 2007 to meet ADS requirements, but later found the results to be irrelevant and unreliable. The consultant performed the study and provided a report, dated September 2007, to Counterpart. Counterpart

accepted the report and paid the contractor approximately \$36,171.<sup>9</sup> When Counterpart started implementing the program, the staff realized that the baseline results were irrelevant because the consultant based his work on regional data, while Counterpart worked only in certain communes of each region.<sup>10</sup> In late 2008, a consultant working for the program found that the results from the baseline study varied enough from other regional data to question their reliability.

From discussions with Counterpart and USAID, the auditor concluded that poor planning and insufficient oversight by USAID led to the problems with the baseline study. For example, Counterpart did not require the consultant to gather data from the specific communes that the program would assist. The statement of work in the consultant's agreement requested only the regional data. Furthermore, as discussed above, Counterpart changed the IPTT indicators it was using to measure program performance after the study was complete, limiting the usefulness of the study data. Finally, even though the consultant's agreement required him to produce "reliable, exhaustive data," Counterpart did not take any action against the consultant based on the discovery that the survey's reliability was questionable.

The August 2010 midterm review report for the program noted the following.

[S]everal targets in the IPTT appear to have been unreasonably ambitious as a result of having no reliable primary or secondary data on which to make more reasonable estimates. The program baseline results did not provide sufficiently reliable data or measure the correct indicators in order to compare results at a later date. Moreover, the sample was designed to be representative at the region level while the program is working only in some of the communes.

Counterpart agreed that one consequence of the baseline study problem was that some program targets were unreasonable. However, the problems with the baseline survey had other, more serious consequences. Namely, it will be difficult for the program to measure its impact at the time of the final evaluation. Because the baseline data was irrelevant and unreliable, comparing it to final data for the current IPTT would not provide meaningful information. Consequently, to determine the program's impact, Counterpart will need to hire a consultant to perform a costly final evaluation comparing results for the intervention zone with those for control communities.

To prevent similar problems with baseline data in future programs, RIG/Dakar makes the following recommendation.

***Recommendation 1.*** *We recommend that USAID's Office of Food for Peace establish and implement a plan to provide more oversight to partners throughout the baseline survey process.*

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<sup>9</sup> Counterpart paid the consultant four payments totaling 9,401,000 Mauritanian Ouguiyas. According to OANDA.com exchange rates on the date of each check, the four payments were worth \$36,171.

<sup>10</sup> Mauritania is divided into 12 regions in addition to the Nouakchott capital district. Each region is divided into several communes, also known as departments. At the time of the baseline survey, Counterpart wanted regional data to use in selecting which parts of the country to target.

In addition, since the baseline survey was not usable for its intended purpose, RIG/Dakar questions the cost and makes the following recommendation.

**Recommendation 2.** *We recommend that USAID's Office of Food for Peace make a management decision on the allowability of the ineligible questioned cost of approximately \$36,171 for the program baseline survey and collect from Counterpart any amounts determined to be unallowable.*

## Cost Recovery From Monetization Was Lower Than Projected

The program description section of the agreement between USAID and Counterpart projected a cost recovery rate of 81 percent. The Bellmon determination,<sup>11</sup> which USAID used to justify the program's monetization activities, projected a cost recovery rate of 88 percent.

The program's actual cost recovery rate was 67 percent. From 2007 to 2011, the program performed five wheat monetization transactions (one per year) totaling 35,370 metric tons at a procurement and shipping cost of \$15,613,400. Counterpart, which was responsible for finding buyers and selling the wheat, earned a total of \$10,461,168 from the five transactions. In other words, on average, the program paid \$441 per metric ton of wheat purchased and earned \$296 per metric ton sold. The difference of \$145 per metric ton was 191 percent higher than the projected difference (from the agreement's program description) of \$50. The following table presents the cost recovery rate for all five monetization transactions for the program.

**Cost Recovery for USAID's Food for Peace Program  
in Mauritania (not audited)**

Transaction Year	Cost Paid for Food and Shipping (\$)	Funds Generated by Sale (\$)	Cost Recovery Rate (%)
2007	3,036,000	2,144,351	71
2008	4,123,800	3,183,922	77
2009	2,769,800	1,183,061	43
2010	2,635,200	1,779,297	68
2011	3,048,600	2,170,537	71
<b>Total</b>	<b>15,613,400</b>	<b>10,461,168</b>	<b>67</b>

Source: USAID.

Working with USAID and Counterpart, the auditor identified three key causes for the lower-than-expected cost recovery: (1) an unreasonable projection for shipping costs, (2) a 2009 shipment with a very low cost recovery, and (3) Government of Mauritania intervention in the wheat market in 2010.

<sup>11</sup> USAID's Monetization Field Manual defines a Bellmon determination as "an analysis in the proposal submitted to the Mission Director by the [program partner], pursuant to section 403(a) of [the Food for Peace Act], showing that a commodity is suitable for monetization (or distribution) in that country, adequate storage is available in the recipient country, and import of the commodity will not result in a substantial disincentive to or interfere with domestic production or commercial marketing of the commodity in that country. The Mission makes the determination on the adequacy of the analysis, subject to final approval of all aspects of the proposal" by the Office of Food for Peace.

**Shipping Costs.** First, the difference between actual and projected shipping prices significantly contributed to the lower-than-expected cost recovery. In the cooperative agreement, Counterpart projected a shipping cost of \$65 per metric ton. In reality, shipping costs averaged \$159 per metric ton over the life of the program, 144 percent higher than the projection. The fact that Counterpart based its projection on the cost of shipping on foreign-flagged (as opposed to U.S.-flagged) vessels contributed to the difference between the projection and the actual cost. While U.S. law requires Food for Peace to ship 75 percent of its commodities (worldwide) on U.S.-flagged vessels,<sup>12</sup> USAID's Monetization Field Manual<sup>13</sup> directs partners to use the (usually lower) foreign-flagged rate for cost recovery analyses. However, even for the three shipments sent on foreign-flagged vessels, the shipping cost averaged \$160 per metric ton, more than double the \$65 estimate used in the agreement. In fact, the lowest rate that USAID paid during the 5-year period for shipping to Mauritania was \$156 per metric ton. The auditor concluded that the \$65 estimate was unreasonable. Shipping costs represented an average of 35 percent of the total costs paid for commodities and shipping over the life of the program. A June 2011 report from the Government Accountability Office (GAO) discussed how legislation requiring the use of U.S.-flagged vessels has resulted in increasingly limited shipping options for Food for Peace, thus driving up the price.<sup>14</sup>

**Shipment in 2009.** Second, USAID shipped 5,650 metric tons of soft red winter wheat (SRW) to Mauritania in 2009, at a total commodity and freight cost of \$2,769,800. The choice of SRW contradicted a statement in the program's Bellmon determination: "The only U.S. wheat acceptable by the flour mills in Nouakchott is hard red winter [wheat] (HRW). Soft red winter wheat could be used for distribution" (not monetization). SRW is typically used for flat breads, cakes, cookies, etc., but HRW is primarily used to make bread.<sup>15</sup> USAID reported that, because of turnover in key positions, personnel working on the program at the time of the audit lacked the institutional knowledge to explain why SRW was selected instead of HRW. However, they did note that SRW was less expensive to purchase in the United States in 2009. USAID was also not able to explain why the cost recovery for this transaction was so low. However, the fact that the program's only shipment of SRW resulted in the only transaction with cost recovery below 71 percent could indicate that SRW had little value for buyers.<sup>16</sup> The program earned only \$1,183,061 from the sale of the SRW, resulting in a cost recovery rate of 43 percent for this shipment.

**Government Intervention.** Third, in 2010, the Government of Mauritania introduced a reform creating approximately 600 shops around the country that would sell food, including bread made from imported wheat, at heavily subsidized prices (approximately 30 percent lower than the market price). Counterpart suspected that this announcement created uncertainty among Mauritanian wheat buyers who had already presented bids to purchase the program's shipment of wheat for 2010. As a result, the highest three bidders withdrew their commitments, and Counterpart could not force them to honor the bids. Consequently, Counterpart had to

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<sup>12</sup> Title 46 of the United States Code, Section 55314.

<sup>13</sup> USAID's Office of Food for Peace prepared the Monetization Field Manual in October 1998. At the time of the audit, USAID was updating the manual.

<sup>14</sup> GAO 11-636, "Funding Development Projects through the Purchase, Shipment, and Sale of U.S. Commodities Is Inefficient and Can Cause Adverse Market Impacts," pages 23-27.

<sup>15</sup> U.S. Department of Agriculture ([http://www.gipsa.usda.gov/fqis/educout/commgallery/gr\\_hrw.html](http://www.gipsa.usda.gov/fqis/educout/commgallery/gr_hrw.html) and [http://www.gipsa.usda.gov/fqis/educout/commgallery/gr\\_srw.html](http://www.gipsa.usda.gov/fqis/educout/commgallery/gr_srw.html)).

<sup>16</sup> Another possibility for the low cost recovery could have been a sudden drop in wheat prices in Mauritania in 2009. However, the Monetization Field Manual requires documented explanations for losses resulting from an unexpected drop in commodity prices. No such documentation was provided.

renegotiate the sale at a price slightly higher than the fourth-highest bid. Counterpart's cost recovery for this shipment was 68 percent. A shorter period between the bidding and actual selling of the commodities might have allowed the program to avoid this problem.

The auditor noted that the program's Bellmon determination was prepared in May 2006 and that some of the most significant data it used was from October 2004. This data was timely in 2006 when USAID signed the cooperative agreement. However, the Monetization Field Manual states: "Large quantities of food aid have the potential to affect markets in dramatic ways, especially if a program continues over several years." Based on this statement, discussions with the mission and partner, and the volatility in the domestic and international food market between 2006 and 2011, the auditor concluded that USAID should update its Bellmon determination for Mauritania before it establishes any new monetization programs. Based on discussions with USAID, the auditor also concluded that updating this determination earlier in the project, perhaps at the midpoint, might have aided in identifying and addressing the cost recovery problems sooner.

The lower-than-expected cost recovery resulted in increased costs to USAID because Counterpart had less funding available for program implementation. Specifically, in addition to the food commodities provided to Counterpart under the agreement, USAID also agreed to provide \$2,876,133 in cash for administrative costs and the internal transport of commodities. By the time of the audit, USAID had increased this amount to \$4,913,043, a 71 percent increase over the amount estimated in the agreement. USAID cited falling exchange rates, the need to recruit more staff than planned, and 2010 legislation that allowed it to increase the initial amount as reasons for the increase, but it also confirmed that lower-than-expected monetization proceeds were a factor.

While USAID had little control over many of the factors contributing to the lower-than-expected cost recovery, RIG/Dakar recommends that USAID take the following steps to prevent these problems in future programs.

***Recommendation 3.*** We recommend that USAID's Office of Food for Peace establish and implement a plan to require a new Bellmon determination that provides clear information on the use of specific types of commodities before awarding any new programs in Mauritania.

***Recommendation 4.*** We recommend that USAID's Office of Food for Peace address the use of realistic shipping rate estimates in program proposals and budgets in its upcoming revision to the Monetization Field Manual.

## **Commodity Quantities on Hand Differed From Warehouse Records**

Counterpart used Generally Accepted Commodity Accountability Principles<sup>17</sup> as a reference for management of its warehouses. Section IV-4 of this document states: "Inventory balances shown on warehouse commodity records must be validated periodically by physical counts."

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<sup>17</sup> The Code of Federal Regulations (22 CFR 211) authorizes Food for Peace program implementers to use this document, prepared by an association of 13 nongovernmental organizations.

The same section requires partners to document any adjustments made to warehouse documentation to reflect actual quantities on hand.

Eight community warehouses visited had records that were verifiable. The auditor noted that physical inventory on hand varied from current warehouse records in seven. In addition, the amount of one commodity in the program's central warehouse could not be determined. The paragraphs below provide more details.

**Community Warehouses.** The auditor compared inventory on hand with warehouse records in eight community warehouses where communities stored food for direct distribution to beneficiaries. In seven of these warehouses, the inventory on hand for at least one commodity varied slightly from what beneficiary warehouse managers had recorded. Both the beneficiaries (who were responsible for distributing commodities) and Counterpart (responsible for overseeing distributions) explained that a problem with recording distributions caused the slight variations. Instead of recording the actual amount distributed, beneficiaries multiplied the number of recipients by the approved ration size and subtracted the result from the starting balance. The differences occurred because distributions to each beneficiary often varied slightly from the approved ration size. The fact that Counterpart did not identify the differences indicated that it had not periodically validated inventories by a physical count. While beneficiaries and Counterpart officials reported that they performed these counts monthly, they did not document the counts, making the statement impossible to confirm.

**Central Warehouse.** In the central warehouse in Nouakchott, the auditor could not count one stack of approximately 3,300 fifty-kilogram bags of corn-soy blend because they were not stacked properly. Counting them would have required counting each individual bag. Haphazard stacking, combined with Counterpart's failure to document periodic inventory counts, indicated that the warehouse staff had not validated the actual inventory by a physical count as of December 31, 2011, as the partner claimed.

Counterpart reported that it used inventory records to make decisions on times and amounts of commodities to distribute throughout the supply chain. While the variations between recorded and actual inventories were small, differences aggregated over the 166 warehouses used by the program could result in commodity overages or shortages. To address this problem, RIG/Dakar makes the following recommendation.

***Recommendation 5.*** *We recommend that USAID's Office of Food for Peace work with the partner to develop and implement a system of periodic, documented inventory counts for all warehouses where program commodities are stored.*

# EVALUATION OF MANAGEMENT COMMENTS

In its comments on the draft report, USAID's Office of Food for Peace agreed with Recommendations 1, 3, and 5, and disagreed with Recommendations 2 and 4. Final action has been taken on four recommendations. A detailed evaluation of management comments follows.

**Recommendation 1.** USAID's Office of Food for Peace agreed with the recommendation and provided a detailed description of steps it has taken starting in July 2009 to improve the baseline survey process. These steps include the provision of increased oversight and technical assistance to Food for Peace partners in the form of reviews of baseline survey plans, a revision to standard indicators for baseline surveys, and a standard indicator handbook for baseline and final evaluations. We believe that these actions fully address the intent of the recommendation. As a result, we consider that final action has been taken on Recommendation 1.

**Recommendation 2.** USAID's Office of Food for Peace did not agree with the recommendation and determined that the questioned costs were allowable. Since USAID's Office of Food for Peace did not sustain the questioned costs, we consider that final action has been taken on Recommendation 2 on issuance of this report.

**Recommendation 3.** USAID's Office of Food for Peace stated that, while it does not currently have plans for a new award in Mauritania, it would conduct a new monetization analysis and issue a new Bellmon determination prior to any future awards in that country. As a result, final action has been achieved for Recommendation 3.

**Recommendation 4.** USAID's Office of Food for Peace disagreed with the recommendation, stating that applicants base the estimated freight costs in their applications on Food for Peace's "commodity calculators." The Office of Food for Peace stated that it updates these estimates quarterly. The Office of Food for Peace also implied that the difference between the estimated and actual shipping rates was due to a dramatic increase during the life of the program. However, RIG/Dakar notes that the rates for shipping the monetized wheat to Mauritania actually remained fairly constant over the life of the program, and never once dropped below \$139 per metric ton (more than twice the estimate of \$65). Accordingly, RIG/Dakar maintains that the program used an unrealistic estimate, which in turn contributed to a 71 percent increase in USAID's planned cash outlays for the program. We stand by our position that all estimates should represent the most realistic expectation of actual costs. Reasonable estimates are essential for management to make decisions about future activities and the cost of these activities. Because the office disagreed, there is no management decision on this recommendation.

**Recommendation 5.** USAID's Office of Food for Peace agreed with the recommendation and stated that, after attending a workshop on commodity management, Counterpart staff decided to implement a system of documented monthly inventory verifications. This new system will be coupled with quarterly physical inventory counts that Counterpart will conduct at all warehouses. As a result, final action has been achieved on Recommendation 5.

# SCOPE AND METHODOLOGY

## Scope

RIG/Dakar conducted this 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 that the evidence provides that reasonable basis. The purpose of the audit was to determine whether USAID's Food for Peace program in Mauritania was achieving its goals related to strengthening human capabilities in health and nutrition.

In October 2006, USAID's Office of Food for Peace signed a cooperative agreement with Counterpart International to implement the Community Action, Nutrition, and Livelihoods Program. Under the award, USAID agreed to provide commodities valued at \$10.5 million along with \$6.9 million to ship the commodities to Nouakchott, Mauritania. In addition, USAID agreed to provide \$2.9 million for shipping within Mauritania and administrative costs. However, by the time of the audit, USAID had increased that amount to \$4.9 million. The 5-year implementation period was set to expire on September 30, 2011, but USAID agreed to provide Counterpart with a 1-year, no-cost extension. At the time of the audit, USAID had provided Counterpart with 39,780 metric tons of food for the program. Of this amount, Counterpart monetized 35,370 metric tons of wheat, earning \$10.5 million. It also directly distributed 4,110 metric tons of vegetable oil, bulgur, corn-soy blend, and lentils. This was the only Food for Peace program operating in Mauritania during FYs 2010 and 2011.

The audit covered program activities over a 2-year period, FYs 2010 and 2011, but the auditor also considered monetization activities over the life of the program. The auditor conducted fieldwork at USAID/Senegal, USAID/Mauritania, and partner and subpartner offices and intervention sites in two of the four regions where the partner was implementing the program in Mauritania. The visits included 3 partner offices, 3 subpartner offices, 9 beneficiary communities, and 12 warehouses that stored program commodities. During the visits, the auditor focused on the program's performance data, monetization activities, and commodity management.

As part of the audit, the auditor assessed relevant controls that the mission used to manage the program. The assessment included verification that the mission had (1) conducted and documented site visits to evaluate progress, (2) reviewed partner progress, and (3) compared reported progress with planned progress and the mission's own evaluations of progress. Additionally, the auditor examined the mission's FY 2010 and FY 2011 annual self-assessment of management controls, which the mission is required to perform to comply with the Federal Managers' Financial Integrity Act of 1982, to determine whether the assessment cited any relevant weaknesses.

## Methodology

To determine whether the program was achieving its goals, the auditor interviewed officials from USAID's Office of Food for Peace, the partner, and subpartners, in addition to program beneficiaries. The auditor also reviewed Food for Peace, USAID, partner, and beneficiary



documents related to the program. These documents included the cooperative agreement and associated modifications, mission and partner performance reporting tools and supporting documentation, the program's baseline study and midterm review, mission trip reports, documents related to the program's monetization history, and the partner's commodity inventory documentation.

The auditor focused on eight performance indicators in the program's IPTT to verify the accuracy and reliability of the reported performance data. The auditor interviewed mission and implementer staff regarding processes for collecting, verifying, and reporting performance results. The auditor also compared the results reported for the indicators with supporting documentation to determine whether the results met USAID's data quality standards. The auditor found that, in many cases, the results reported for the indicators did not meet USAID's standards for validity or reliability. The auditor selected items for this testing based on a judgmental sample. As a result, the results and overall conclusions related to this testing were limited to the items tested and could not be projected to the entire audit universe.

To address the program's monetization activities, the auditor reviewed the costs and earnings as reported by the mission to determine the cost recovery rate for the program's monetization activities. To address the program's management of commodities, the auditor obtained the commodity management standards used by the program and compared them with the actual conditions in 12 warehouses where the partner stored commodities.

The auditor conducted site visits to beneficiary communities to consider the impact of the program as well as the sustainability of that impact. During these visits, the auditor also verified that the partner was actually implementing selected program activities.

The auditor conducted fieldwork from January 18 to February 7, 2012.

# MANAGEMENT COMMENTS

March 23, 2012

## MEMORANDUM

**TO:** Gerald Custer, Regional Inspector General/Dakar

**FROM:** Dina Esposito, Director, USAID/Office of Food for Peace  
Henderson Patrick, Mission Director, USAID/Senegal

**SUBJECT:** Management Responses to RIG/Dakar Draft Report on Audit of USAID's Food for Peace Activities in Mauritania (Report No. 7-682-12-005-P)

On February 23, 2012, the USAID Office of Food for Peace (USAID/FFP) in Washington and USAID/Senegal, to which the USAID/FFP/Dakar Regional Office reports, received the draft report on the subject audit containing four findings and five recommendations. The purpose of this memorandum is to describe the significant actions already taken by USAID and the awardee for each of the five recommendations and, in turn, respond to the key findings. In addition, USAID/FFP requests that management decisions be issued for all five recommendations and that all recommendations be closed based on actions taken to date.

Overall, USAID appreciates the efforts undertaken by the auditors to strengthen the systems and procedures of USAID/FFP programs in Mauritania and would like to underscore the special circumstances in which U.S. Government (USG) staff and Counterpart International (Counterpart) have worked in Mauritania over the past five years. In addition to being located in a USAID non-presence country, the USAID/FFP program in Mauritania has faced numerous challenges. Key challenges include a 2008 military coup, which restricted working with proposed government partners; an unstable security situation due to Al-Qaeda of the Islamic Maghreb presence; and several kidnappings and killings of staff of non-governmental organizations. Staffing turnovers were extremely high and, due to travel restrictions, certain implementation sites were inaccessible to expatriate staff of Counterpart and USG personnel.

Despite these constraints, USAID/FFP staff based in Senegal and Mauritania worked closely with Counterpart to implement and monitor program activities and improve procedures as needed. Since fiscal year (FY) 2010, USAID staff has made six monitoring trips to Counterpart's implementation areas in order to review data quality and commodity management systems. USAID/FFP's Agreement Officer's Representative (AOR) conducted monitoring trips in FY 2010 and FY 2011. In FY 2011, USAID/Senegal hired a Food for Peace Officer (FFPO) in Mauritania to closely monitor program activities; the FFPO made three field trips in FY 2011. A representative from USAID/FFP/Dakar accompanied both the AOR and the FFPO in each of these five site visits. To date in FY 2012, the FFPO has conducted one monitoring visit. This was a significant change in management and represents an increase in oversight as compared to previous years.

In providing these responses to the audit recommendations, USAID underscores that there are

limitations on USG involvement because USAID/FFP awards are cooperative agreements. There are also limitations on the level of programmatic changes that USAID can realistically ask Counterpart to implement as Counterpart/Mauritania will not receive additional USAID/FFP resources after FY 2012 because Mauritania has not been selected for a new Title II development food assistance award in FY 2013.

**Recommendation No. 1:** We recommend that USAID's Office of Food for Peace establish a plan to provide more oversight to partners throughout the baseline survey process.

**Response No. 1:** USAID/Senegal and USAID/FFP concur with recommendation No. 1. On July 30, 2009, USAID/FFP issued Food for Peace Information Bulletin (FFPIB) 09-06, "Monitoring and Evaluation Responsibilities of Food for Peace Multi-Year Assistance Programs Awardees," which describes key monitoring and evaluation (M&E) responsibilities of awardees throughout the life of awards.<sup>1</sup> In addition, USAID/FFP and its technical partner, Food and Nutrition Technical Assistance (FANTA), provide significant oversight and technical assistance during the development and finalization of M&E materials, including baseline surveys. Current USAID/FFP awardees must submit a baseline survey plan to USAID/FFP for approval prior to data collection. Further strengthening the quality of partner surveys and evaluations was the December 20, 2011 release of FFPIB 11-03, "Revision to FFP Standard Indicators for Baseline Surveys and Final Evaluations,"<sup>2</sup> and its accompanying "FFP Standard Indicators Handbook for Baseline and Final Evaluations."<sup>3</sup>

Unfortunately, the Mauritania Title II program did not have the advantage of benefiting from this additional guidance as it pre-dated these policies. However, Counterpart participated in the USAID/FFP-sponsored week-long training opportunity on M&E held in Burkina Faso in February 2012. Two staff from Counterpart/Mauritania attended the Technical Operation Program Support M&E workshop, where they enhanced their knowledge on the development of detailed M&E plans, as well as qualitative data analysis.

Based on this clarification, USAID/Senegal and USAID/FFP request that RIG/Dakar close Recommendation No. 1 prior to the issuance of the RIG report.

**Recommendation No. 2:** We recommend that USAID's Office of Food for Peace make a management decision on the allowability of the ineligible questioned cost of approximately \$36,171 for the program baseline survey and collect from Counterpart any amounts determined to be unallowable.

**Response No. 2:** USAID/Senegal and USAID/FFP do not concur with recommendation No. 2. As stated on page 7 of the Draft Report, "poor planning and insufficient oversight from USAID led to the problems with the baseline study." As neither USAID/FFP nor Counterpart is solely culpable for the deficiencies of the September 2007 baseline survey, USAID/FFP Agreement Officer has determined that these costs will stand. USAID/FFP notes that both parties have

<sup>1</sup> [http://www.usaid.gov/our\\_work/humanitarian\\_assistance/ffp/ffpib\\_09.06.pdf](http://www.usaid.gov/our_work/humanitarian_assistance/ffp/ffpib_09.06.pdf)

<sup>2</sup> [http://www.usaid.gov/our\\_work/humanitarian\\_assistance/ffp/ffpib.stdindicators.pdf](http://www.usaid.gov/our_work/humanitarian_assistance/ffp/ffpib.stdindicators.pdf)

<sup>3</sup> [http://www.usaid.gov/our\\_work/humanitarian\\_assistance/ffp/ffpstdindicatorhb.pdf](http://www.usaid.gov/our_work/humanitarian_assistance/ffp/ffpstdindicatorhb.pdf)

learned from this experience, and have made good faith efforts to ensure that this situation does not happen again. USAID/FFP's efforts are documented in the response to Recommendation No. 1. For its part, Counterpart has been diligent in implementing specific recommendations from the 2010 mid-term evaluation that relate to this finding. For instance Counterpart has adjusted the stunting and underweight indicators in the Indicator Performance Tracking Table, and has collaborated fully with USAID/FFP while doing so. Furthermore, Counterpart has planned for a thorough, quantitative final evaluation. The results of the final evaluation will be compared with control areas with similar nutritional and food security status. The scope of work is being finalized in close consultation with USAID/FFP and FANTA.

Based on this clarification, USAID/Senegal and USAID/FFP request that RIG/Dakar close Recommendation No. 2 prior to the issuance of the RIG report.

**Recommendation No. 3:** We recommend that USAID's Office of Food for Peace establish a plan to require a new Bellmon determination that provides clear information on the use of specific types of commodities before awarding any new programs in Mauritania.

**Response No. 3:** USAID/Senegal and USAID/FFP concur with this recommendation, and on November 26, 2008, USAID/FFP issued Information Bulletin (FFPIB 09-02), "New Procedures to Establish Compliance in P.L. 480 Title II Food Aid Program Proposals with the Conditions of the Bellmon Amendment."<sup>4</sup> The FFPIB established a new approach to help USAID Missions fulfill their responsibility and legal obligation to make a formal declaration in compliance with the Bellmon Amendment. In FY 2009, USAID/FFP piloted the Bellmon Estimation for Title II (BEST) Project, hiring FINTRAC to conduct independent market analysis in priority countries. Today, the BEST Project is fully integrated into USAID/FFP operations. Applicants for Title II development food assistance awards are expected to use the BEST findings, as well as findings from their own independent assessments, to inform their applications:

For all programs, applicants must demonstrate that (a) proposed distribution and monetization food aid commodity levels will not result in disincentives to or interference with local agricultural production or marketing and will not disrupt commercial markets and (b) importation of agricultural commodities and the use of local currencies generated under the proposed award will not have a disruptive impact on the farmers or the local economy of the recipient country.<sup>5</sup>

Additional details and instruction on the information required to justify commodity selection are as follows:

*Monetization and/or Distribution Plan.* The monetization plan should be developed as outlined in the *FFP Monetization Field Manual* found at [http://www.usaid.gov/our\\_work/humanitarian\\_assistance/ffp/govdoc.html](http://www.usaid.gov/our_work/humanitarian_assistance/ffp/govdoc.html). Note that the country-specific information, RFA and FFP Information

<sup>4</sup> [http://www.usaid.gov/our\\_work/humanitarian\\_assistance/ffp/ffpib.09.02.pdf](http://www.usaid.gov/our_work/humanitarian_assistance/ffp/ffpib.09.02.pdf)

<sup>5</sup> Office of Food for Peace. *Fiscal Year 2012 Title II Development Food Assistance Programs*. Washington, DC. Page 3, [http://www.usaid.gov/our\\_work/humanitarian\\_assistance/ffp/fy12.developmentprogramrfa.pdf](http://www.usaid.gov/our_work/humanitarian_assistance/ffp/fy12.developmentprogramrfa.pdf)

Bulletins take precedence over the manual, should there be a discrepancy. Key points should include a justification for the proposed monetization (including the level of monetization expressed as a percentage of total tonnage), description of the proposed mechanics of the monetization (e.g., type of sale, type of buyer, anticipated food aid commodities, and whether the potential sale will be conducted with other awardees), and a discussion of the local market factors and potential risks that may affect distribution as well as monetization. Complete the following monetization tables and submit as an annex: Anticipated Monetization Proceeds and Cost Recovery Data; Anticipated Monetization Results Analysis; and Anticipated Life of Award Analysis for Monetization Proceeds.

For the Distribution Plan, the applicant must discuss the local market factors and potential risks that may affect distribution. Both food aid commodity monetization and distribution programs need to be familiar with and understand the implications of the FFP Information Bulletin (09-02) entitled, *New Procedures to Determine Compliance of P.L. 480 Title II Food Aid Program Proposals with the Conditions of the Bellmon Amendment* found at: [http://www.usaid.gov/our\\_work/humanitarian\\_assistance/ffp/ffpib.09.02.pdf](http://www.usaid.gov/our_work/humanitarian_assistance/ffp/ffpib.09.02.pdf).<sup>6</sup>

At this time there are no new awards being issued in Mauritania; however, prior to any future awards, a new BEST Project will be conducted and a Bellmon Determination issued.

Based on this clarification and since there are no new awards planned for Mauritania, USAID/Senegal and USAID/FFP request that RIG/Dakar close Recommendation No. 3 prior to the issuance of the RIG report.

**Recommendation No. 4:** We recommend that USAID's Office of Food for Peace address the use of realistic shipping rate estimates in program proposals and budgets in its upcoming revision to the monetization field manual.

**Response No. 4:** USAID/Senegal and USAID/FFP do not concur with this recommendation due to the fluid nature of USAID/FFP operations. When applicants submit proposals for Title II development food assistance programs, the **estimated** commodity and freight costs are determined by the current commodity calculator distributed by USAID/FFP. As commodity and freight costs fluctuate constantly, the calculations submitted to USAID/FFP in the proposal are understood by all parties to be **estimates**; they function to help create the cost and programmatic framework for the life of award, as well as each year of the award.

The commodity calculators are updated to reflect *current* commodity and freight costs on a quarterly basis, and are employed again by awardees both during the annual program approval process, as well as in advance of each call forward. It is used to **estimate** the number of commodities an awardee can call forward while remaining aligned with the approved award framework. Cost-recovery rates are not determined until the awardee's official commodity

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<sup>6</sup> Office of Food for Peace. *Fiscal Year 2012 Title II Development Food Assistance Programs*. Washington, DC. Page 11, [http://www.usaid.gov/our\\_work/humanitarian\\_assistance/ffp/fy12.developmentprogramrfa.pdf](http://www.usaid.gov/our_work/humanitarian_assistance/ffp/fy12.developmentprogramrfa.pdf)

request is made through the U.S. Department of Agriculture's (USDA) sales order system. Just prior to the submission of the sales order, the Program Operations Division of USAID/FFP receives "spot prices" from USDA on commodity costs and the Office of Acquisition and Assistance on freight rates. These rates, which best capture market activity in the commodity and freight industries at the time of the call forward, are relayed to the awardee and included in its sales order. When Counterpart submitted its application in 2006, neither USAID/FFP nor Counterpart could have predicted that shipping rates would change so drastically during the life of its program.

Based on this clarification, USAID/Senegal and USAID/FFP request that RIG/Dakar close Recommendation No. 4 prior to the issuance of the RIG report.

**Recommendation No. 5:** We recommend that USAID's Office of Food for Peace work with the partner to implement a system of periodic, documented inventory counts for all warehouses where program commodities are stored.

**Response No. 5:** USAID/FFP and USAID/Senegal concur with Recommendation No. 5. In March 2011, Counterpart's Commodity Manager attended the Commodity Management Workshop held in Dakar. During this workshop, participants learned how to conduct and control warehouse inventory. As a result of this training, Counterpart developed a tally sheet to facilitate accurate end-of-fiscal-year physical inventory counts at the regional warehouses. This audit experience, however, highlighted the importance of instituting more frequent checks of Counterpart's warehouses, particularly at the community level. Therefore, beginning March 2012, Counterpart will use these tally sheets each month to conduct physical inventories on commodity levels. These reports will be reviewed and signed both by the responsible staff member and also the warehouse manager. Additionally, Counterpart will conduct independent and verifiable physical inventory counts at the end of each quarter. In response to this RIG recommendation, Counterpart will now have a non-commodity management staff member (i.e., the regional manager, logistician, financial management staff, etc.) conduct this physical inventory. Counterpart will submit the inventory form to USAID along with the program's quarterly reports. The monthly and quarterly physical inventory counts will take place at the national, regional, and community warehouses. As of the end of February 2012, Counterpart has 551.358 MTs of commodities to program during the final seven months of its award. Please refer to attached samples of the monthly tally sheets and quarterly inventory form.

Based on this clarification, USAID/Senegal and USAID/FFP request that RIG/Dakar close Recommendation No. 5 prior to the issuance of the RIG report.

## **Conclusion**

This Memorandum serves as USAID/FFP's and USAID/Senegal's response to the recommendations outlined in RIG/Dakar's Memorandum dated February 23, 2012. As noted in the introduction, there were several events beyond USAID's control, including political instability and staff shortages at the start of the project, that affected (and will continue to affect) program progress and oversight in Mauritania. USAID/FFP staff in Mauritania, Washington, and Dakar, along with Counterpart, will continue working closely and collaboratively to improve procedures and sustain program impact during the final year of implementation.

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