Audit of USAID/Guatemala's Management of P.L. 480 Title II Commodity Losses

Audit Report No. 1-520-00-001-P
January 21, 2000

Regional Inspector General
San Salvador

U.S. AGENCY FOR INTERNATIONAL DEVELOPMENT

RIG/San Salvador

January 21, 2000

MEMORANDUM

FOR: USAID/Guatemala Director, George Carner

FROM: Acting RIG/A/San Salvador, Steven H. Bernstein

SUBJECT: Audit of USAID/Guatemala's Management of P.L. 480 Title II Commodity Losses (Report No. 1-520-00-001-P)

This memorandum is our report on the subject audit. In finalizing the report, we considered your comments on the draft report. Your comments on the draft report are included in Appendix II.

This report contains two recommendations for your action. A management dedicion will be reached when the mission provides a plan of action to implement the recommendations.

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

Background

The Public Law 480 Title II food program for Guatemala is designed to improve food security among poor rural families through a combination of community level activities. It has provided food for distribution to over 200,000 designated beneficiaries, food for victims of Hurricane Mitch in 1998-99, and food for local sale (monetization) to fund several development projects and program implementation costs. USAID/Guatemala managed this food program through four cooperating sponsors in Guatemala: Cooperative for Assistance and Relief Everywhere (CARE), Catholic Relief Services (CRS), SHARE

Association of Guatemala[1], and Feed the Children (FTC)[2]. In fiscal years 1997, 1998, and 1999, the value of the food commodities was about $11 million, $16 million, and $16 million respectively, excluding the value of the emergency food.[3]

By quantity, about 82,000 metric tons (or 82 million kilograms) of P.L. 480 Title II food commodities was received in Guatemala from October 1996 to March 1999.[4] Of this total, about 58 percent of the food was sold (i.e., monetized), 36 percent was distributed, and the remainder was distributed for the Mitch emergency. With regard to cooperating sponsors, the largest amounts of food went to CARE (49 percent); CRS (38 percent); and SHARE (10 percent).

The food was delivered as follows. The U.S. Department of Agriculture and USAID's Bureau of Humanitarian Response/Office of Food for Peace (BHR/FFP) arranged for food shipments from the United States, usually by ocean vessels. For the Mitch emergency, some food arrived by air. Food for monetization arrived at Puerto Quetzal, where upon offloading from a vessel the buyer immediately took possession. Food for distribution arrived at Puerto Santo Tomas in sealed containers, except in a few instances. Then a cooperating sponsor would take possession and arrange for a trucking company to transport the food to its warehouse. From the warehouse, a trucking company would transport the food to recipient agencies for two cooperating sponsors. For the other two cooperating sponsors, the recipient agencies would go to the cooperating sponsor warehouses for the food. Next, the recipient agencies would provide the food to individuals and/or to the recipients' or communities' distribution centers, which would ration food to individuals.

Moving food commodities from the port to the recipients has involved many participant organizations since October 1996 as shown in the following table.

[1] This organization operated as the Guatemala office of World SHARE, Inc. until October 1999, when it became an independent organization and thus subrecipient of World SHARE, Inc.
[2] FTC's participation ended September 30, 1999.
[3] Unaudited data.
[4] Unaudited data.

Organizations	CARE	CRS	FTC	SHARE
Port Authority	2	2	2	2
Truck Company from Port	1	1	1	1
Warehouse a)	1	1	1	3
Truck Co. from Warehouse	1	1	none	none
Recipient Agencies	38	6	60	25
Distribution Centers	387	b) 437	67	333

Note: Unaudited data from cooperating sponsors.

a) Other third parties may become involved, e.g., warehouse owner, insurance company, and security company.

b) CRS had 633 additional distribution centers to handle food for the Mitch emergency.

To regulate this food program, USAID has Regulation 11, also known as 22 CFR Part 211. Regulation 11 defines losses and describes actions to be taken on losses.

Food losses can occur for various reasons, such as shrinkage due to low humidity, spillage from torn bags of grain and compressed cans of oil, damage due to wetness, and other causes. But, food losses in Guatemala were minimized by using 40-foot containers that remained sealed from the U.S. port to the cooperating sponsor’s warehouse and by limiting the rebagging of food at cooperating sponsor warehouses to cases where damaged or torn bags were found.

Reimbursements for food losses are made to the U.S. Government. For example, a typical category of loss is ocean loss, which occurs aboard a vessel transporting the commodities. In this instance, the U.S. Department of Agriculture (USDA) files a claim against the shipping company, except for CARE and CRS which file their own claims. To substantiate a claim, the surveyor's report on commodities delivered is a key document and is contracted by USDA’s Commodity Credit Corporation and/or the responsible cooperating sponsor. The cooperating sponsor’s in-country office has related responsibilities, such as the transmittal of all support documents for the ocean loss claim and the removal of damaged commodities which may include a health certificate of unfitness for human consumption and eventual sale or destruction.

To manage the P.L. 480 Title II program including food losses, USAID/Guatemala assigned one full-time local national as program manager, under the direction of the office director for its strategic objective on income and natural resources. Staff support is provided on a part-time basis (10 to 25 percent) by four local professional employees and a secretary.

USAID/BHR/FFP issued cables in 1998 and 1999 which basically reminded missions of their responsibilities for Title II commodities. These responsibilities include tracking commodity losses, claims for losses, and other actions.

Audit Objective

The audit was conducted as part of the Office of the Regional Inspector General/San Salvador's fiscal year 1999 audit plan. The audit was designed to answer the following question:

- Did USAID/Guatemala manage losses of P.L. 480 Title II food commodities in accordance with USAID regulations and supplemental guidance?

The audit scope and methodology are presented in Appendix I.

Audit Findings

Did USAID/Guatemala manage losses of P.L. 480 Title II food commodities in accordance with USAID regulations and supplemental guidance?

USAID/Guatemala appropriately managed its P.L. 480 Title II food commodity losses in accordance with Regulation 11 and supplemental guidance.

We examined USAID/Guatemala's management of losses of P.L. 480 Title II food commodities for three factors that we considered significant. Those three factors were the mission's tracking system for commodity losses, its written guidance provided to cooperating sponsors, and its actions on reported commodity losses. We weighed those factors for the mission's compliance with relevant laws and regulations and for reasonable controls, especially in response to losses reported by the cooperating sponsors and the amount of such reported losses. Thus, based on our judgmental samples (see Methodology section for details of selection) our conclusion was a positive assurance on USAID/Guatemala's management of commodity losses. During our audit, we visited all four cooperating sponsors to verify the mission's efforts. We found other matters that would help the mission manage its program in the event that losses materially increase: cooperating sponsors could improve their quarterly loss reporting and their monitoring of their recipient agencies and distribution centers, about which we issued two recommendations.

In a June 8, 1999 cable, the mission informed BHR/FFP that it has a tracking system to track food loss reports and claims for losses filed by cooperating sponsors. The mission also stated that it systematically reviews the quarterly commodity status reports submitted by cooperating sponsors. The mission's tracking system is the cooperating sponsors' quarterly commodity status reports and loss lists. Review and analysis of such submissions were performed, as indicated by mission documents on individual losses and on unfit food. Also, the mission formally instructed cooperating sponsors by providing copies of the BHR/FFP cables and a letter dated June 1999. The mission letter included a noteworthy instruction that the cooperating sponsor make a statement on no loss when there was none—a positive statement that there was nothing to report.

The following table shows the reported losses in kilograms from October 1996 through March 1999. Total reported food losses for two and a half years were 220,839 kilograms, of which 77 percent was ocean loss. So, in-country losses were 50,142 kilograms—or .06 percent of about 82 million kilograms received.

Category of Loss	CARE	CRS	FTC	SHARE
Ocean	60,914	a) 99,556	4,000	6,227
Port		1,474		
Coop.Sp.Warehouse		265	1	3,971
Transit		6,142		
Recipient Agencies		4,105		b) 33,984
Distribution Centers		200		
Total (kg):	60,914	111,742	4,001	44,182

Note: Unaudited data from cooperating sponsors' quarterly loss reports.
a) Included loss due to pilferage at the port.
b) Combined amount for both recipient agencies and distribution centers.

Not included in the preceding table for the 30-month period are two major food losses, which occurred outside the October 1996 to March 1999 period. One involved mission actions during the 30-month period and the other was more recent, but both demonstrated a high degree of mission involvement when significant food losses were discovered. The two losses were: a series of commodity thefts (150,095 kilograms) and arrival of unfit commodities (494,000 kilograms) for monetization.

In May 1996, SHARE detected an employee's theft of $79,648 worth of commodities (which began in 1994 and totaled 150,095 kilograms) and $508 of program income from a distribution center. The mission notified the Office of Inspector General and the local police and approved a SHARE contract for an immediate local investigation. This investigation provided substantial evidence to bring the former employee to trial. SHARE officials are dedicated to the prosecution of offenders (which was still in process for the former employee as of September 1999) in order to have criminal convictions serve as a strong deterrent against such food losses. In June 1998, the mission with BHR/FFP's concurrence issued a bill of collection for $80,000 in spite of SHARE's objection. Regulation 11 requires payment in U.S. dollars. However, a BHR/FFP and SHARE agreement provided for payment via an offset for a SHARE project funded with non-U.S. Government resources to assist poor Guatemalan families affected by Hurricane Mitch. From 1996 on, the mission reviewed the changes in SHARE's weak food controls and audit reports for deficiencies in its food program. In 1999, the mission began monitoring the SHARE new Mitch project for compliance with the BHR/FFP agreement.

In May 1999, a local buyer told CRS that an entire commodity shipment of 20 million kilograms for monetization would be refused because of bad odor and visible signs of rotten commodities. The shipment was to provide over $2 million of local currency for development projects. Besides the buyer's refusal, the mission and CRS dealt with various adverse factors, mainly: the first laboratory test indicated that the entire shipment was unfit for human consumption, the Guatemalan Ministry of Agriculture would not allow unfit food to be unloaded, and the vessel owner could seize the entire cargo if there was no unloading. (Afterwards, the owner filed a suit for $300,000.) Also, the mission coordinated with a U.S. Department of Agriculture team sent on-site to witness the damaged food and with BHR/FFP. Under mission oversight, the commodities were unloaded about a month later, 494,000 kilograms of unfit commodities were buried and guarded to prevent theft, the remaining food was sold, and a loss claim was filed against the shipping company with claim proceeds to be deposited with the U.S. Government.

Although mission's management of commodity losses was appropriate, the mission should expand its management system for commodity losses in two respects: quarterly loss reports and reasonable assurance on food care.

Quarterly Loss Reports Should Be Expanded to Ensure Consistent Data and to Detect Loss Patterns

Although the total amount of food losses was relatively small, cooperating sponsors' quarterly loss reports were inconsistent. With consistent data in accordance with Regulation 11, the mission's tracking system for food losses would provide the ability to compare loss data among the cooperating sponsors. Also, the cooperating sponsors had insufficient data that were not readily available. With sufficient data the mission could use its tracking system of quarterly loss reports to detect a pattern in losses, as described in the introduction to Regulation 11 in principal change no. 34. Although the mission provided guidance, more detailed guidance could improve cooperating sponsors' reporting. Therefore, the mission should issue detailed guidance on quarterly loss reports and a data collection system.

The audit found various indications of inconsistent quarterly loss reporting. First, the table on page 5 on reported quarterly losses shows major differences in losses among the cooperating sponsors for each category, in light of the differences in the amount of commodities received by each cooperating sponsor. For example, a comparison of reported warehouse losses showed losses of zero kilograms by CARE, 265 kilograms by CRS, and 3,971 kilograms by SHARE. Yet, their respective portions of commodities received were 49, 38, and 10 percent, with FTC receiving over 2 percent. In other words, it is unlikely that CARE had zero kilograms of warehouse losses when it received 49 percent of the commodities and the same appears unlikely for CRS.

Second, there were unreported losses. For example, CARE and FTC reported almost no losses in their own warehouses. But, both said they probably had minor warehouse losses. FTC's records showed several minor warehouse losses, such as 18 kilograms and 143 kilograms. CARE had records on two transit (or truck) losses of 11,869 kilograms and 18,855 kilograms that were not reported and had sometimes under-reported its ocean losses by not counting the damaged food in the shipment. Also, CARE did not report losses of recipient agencies and distribution centers because CARE considered these losses to be their responsibility and not CARE's.

SHARE had not reported losses by recipient agencies and distribution centers since January 1998. Its records showed such losses totaling 62,810 kilograms through March 1999. FTC reported no such losses and received 3 percent of the food for distribution, but its records showed seven such losses, e.g., 550 kilograms and 1,436 kilograms. Since SHARE and FTC received 25 percent of the food for distribution and SHARE had 89 percent of reported losses by recipient agencies and distribution centers of all cooperating sponsors, CARE and CRS may have under-reported losses by their recipient agencies and distribution centers.

Third, there was a lack of information on actions taken on losses. An action could be filing a claim against a third party, legal action against a person or organization, receipt of a claim payment, deposit of a claim payment less administrative cost at the U.S. Embassy, request for mission approval to sell or destroy unfit food, request for mission approval to take no action, or even no action for an allowable reason specified in Regulation 11.

None of the cooperating sponsors stated what actions they took on each loss in their quarterly loss reports, although they did communicate with the mission on some individual losses. For example, CARE filed food loss claims against its trucking contractor for a 11,869 kilogram loss in August 1997 valued at $4,880 and a 18,855 kilogram loss in February 1999 valued at $8,342. Both the losses and the actions taken were not stated in CARE's quarterly loss reports. Later, CARE deposited the February claim payment less administrative costs at the U.S. Embassy a week after the audit team's inquiry. CARE could not say what happened to the earlier claim, as of September 1999.

Another example involved action taken on damaged food. The cooperating sponsors obtained a local health authority's certificate that the damaged food was unfit for human consumption. Then they requested mission's approval to sell or destroy the unfit food, especially if the value was $500 or more. But, these actions were not cited in the quarterly loss reports nor what happened to the unfit food. For example, CARE sold its damaged unfit food and CRS incinerated its damaged unfit food. CARE did inform the mission of some individual sales and respective deposits of sales proceeds at the U.S. Embassy, but did not cite any of these actions in its quarterly loss reports. Nevertheless, the quarterly reporting of all losses and actions taken on losses is required by Regulation 11.

Fourth, the quarterly loss reports lacked the estimated value of losses, with one exception. CRS began reporting the dollar value of losses on its October-December 1997 report. Otherwise, the cooperating sponsors did not report the value of losses in their quarterly loss reports.

Regulation 11 describes the quarterly loss reports, actions to be taken on losses, and the reason for requiring loss reporting. Specifically, section 211.9(f) requires that the cooperating sponsor provide a quarterly report regarding any loss, damage or misuse of commodities on: each individual loss, the estimated value of the loss, the action taken for recovery or disposal of a loss, and additional data for a loss valued at $500 or more. Section 211.9(d) provides that the cooperating sponsor pays for all losses, regardless of dollar value, if the loss is due to negligence on the part of the cooperating sponsor. Section 211.9(e) requires for a loss due to the fault of others and valued at $500 or more that the cooperating sponsor file a claim, make three demands, and take legal action. If the cooperating sponsor decides not to take legal action, it must notify the mission for review and approval. Section 211.9(g) requires all commodity claim proceeds to be deposited with the U.S. Embassy and recovered monetized proceeds and program income to be deposited into the account for monetized proceeds and to be used for program purposes. The introduction to Regulation 11 contains principal change no. 34, which explains, in regard to section 211.9(f), that the mission has a responsibility to know the amount of commodities that have been delivered to beneficiaries and the amount that has been lost, damaged, or misused, which might show patterns suggesting larger problems.

The audit found that the cooperating sponsors' quarterly loss reports not only contained inconsistent loss data, but also lacked sufficient data for the mission to detect patterns. As the table on page 2 shows, there were hundreds of recipient agencies and distribution centers. Although SHARE reported the losses by its recipient agencies and distribution centers and had the most (i.e., 89 percent of this category of loss), its quarterly reports only gave the total amount without further data to enable the mission to detect patterns. One reason was that SHARE's system of records did not provide ready access to the food receipt, distribution, and loss history for each recipient agency and each distribution center. SHARE said that to analyze a pattern at an organization it would need to visit the responsible recipient agency to obtain additional data on the food movement. However, SHARE did have a system of monthly loss reports from each recipient agency.

The mission did provide guidance to the cooperating sponsors. Such guidance consisted of copies of the BHR/FFP cables issued in 1998 and 1999 and a mission letter dated June 1999. The letter included a noteworthy instruction that the cooperating sponsor make a statement on no loss where there was none. However, the cooperating sponsors submitted quarterly reports that contained inconsistent loss data, as indicated in the preceding paragraphs, and that lacked sufficient data to detect a pattern in losses.

To detect patterns through the quarterly loss reports, the mission will need more data and more consistent data than are currently provided in the cooperating sponsors' quarterly loss reports. But, a quarterly loss report listing each loss for several hundreds of organizations would obviously be unwieldy. The mission should consider a shortened version of a quarterly loss report and the ability of a cooperating sponsor to provide ready data on each participant organization in order to detect patterns. The mission's policies for the food program, expressed in its Food Aid Management Plan, stated that the cooperating sponsors could provide a total for all losses under $500 on the quarterly status reports. While a step towards avoiding unwieldy reports, the mission should consider whether cooperating sponsors should report such losses under $500 by subtotals for each responsible organization or natural groups of similar organizations.

Recommendation No. 1: We recommend that USAID/Guatemala issue detailed guidance to the implementing organizations under its Public Law 480 Title II food commodity program on (a) preparing their quarterly loss reports which would include listing every loss within defined guidelines, the dollar value of each loss, actions taken, and other relevant data and (b) establishing a system for obtaining readily accessible data on food losses at each recipient agency, distribution center, and third party.

Assessments on Proper Storage, Care, and Handling of Food Commodities Should Be Made

The mission determines whether an organization must pay for a food loss and to do this, it needs to know if the organization acted responsibly, as stated in Regulation 11. However, the mission lacked formal assessments on the storage, care, and handling of commodities by participating organizations, which should be addressed in mission policies, and also a list of necessary measures to safeguard food in Guatemala. Instead, it relied on site visits without a checklist of necessary measures and relied on USAID headquarters to communicate deficiencies stated in annual audit reports on the cooperating sponsors. Without an assessment, the mission cannot be assured that the cooperating sponsor properly stores, cares, and handles commodities and adequately supervises commodity care by its recipient agencies and distribution centers. As a result, the responsible organization can refuse to pay for food losses.

Two situations arise with food losses where an assessment of proper storage, care, and handling of commodities is needed. First, Regulation 11, section 211.9(d) states that a cooperating sponsor shall pay for commodity loss if the cooperating sponsor causes the loss through any act or omission or failure to provide proper storage, care, and handling, unless the mission determines that the loss could not have been prevented by proper exercise of the cooperating sponsor's responsibility. Second, section 211.3(c)(2) states that the cooperating sponsor's agreement with a recipient agency shall require the recipient agency to pay for a commodity loss which results from its failure to exercise reasonable care.

Mission policies, as expressed in its Food Aid Management Plan as Mission Order 9.1, addressed audits and mission staff visits to review a cooperating sponsor's systems. But, they did not address how the mission would implement its responsibility to assess proper storage, care, and handling of commodities by cooperating sponsors, recipient agencies, and distribution centers. For example, the mission order could offer options for performing assessments, such as mission staff site visits and audits. The mission order could also list the necessary measures to safeguard food in Guatemala. A site visit could utilize a checklist on various measures (against theft, insects, rodents, and others) and on various controls (e.g., supervisory visits and internal audits). A site visit would use the checklist to assess the two responsibilities of the cooperating sponsor: care of food under its direct control and supervision of food care by recipient agencies and distribution centers. In addition, if the mission opts to utilize audits, then the contract with an audit firm should include a review of food care and a statement in the audit report on the results of that review.

The mission acknowledged that it had made no formal assessment of cooperating sponsors' storage, care, and handling of food and supervision of food care by their recipient agencies and distribution centers. Instead, it relied on staff site visits that did not include formal assessments and relied on USAID headquarters to communicate deficiencies stated in annual audit reports conducted in accordance with U.S. Office of Management and Budget's (OMB) Circular A-133. USAID headquarters had not notified the mission of any deficiencies in the cooperating sponsors' food program included in A-133 audit reports.

Reliance on A-133 audit reports is not advisable because the auditors are not explicitly required to assess food care. Also, if the auditors do assess food care, they may not report deficiencies in the audit report and instead report them in their management letter. The reason for this situation is because OMB's compliance supplement for A-133 audits of various federal programs contains no audit guidance for the P.L. 480 Title II food program, until the compliance supplement was revised in April 1999.

Although the mission did not have any audit reports on CARE, CRS, and FTC after fiscal year 1996, the mission had audit reports on World SHARE for its fiscal years ending June 30, 1997 and 1998. SHARE said that the audits involved U.S. auditors' visit to the SHARE office in Guatemala, use of a local audit firm, and no management letter for the Guatemala office. The audit reports indicated no deficiencies with controls and compliance in SHARE's P.L. 480 Title II commodity program.[5] Further, the audit reports did not make any direct statement about any visit to Guatemala or elsewhere. Furthermore, the audit reports made no statement about SHARE's proper storage, care, and handling of commodities and SHARE's supervision of recipient agencies' and distribution centers' reasonable care of commodities.

[5] Coincidentally, the A-133 audit report on World SHARE for its fiscal year 1995 did not report on the control weakness in its Guatemala office, which involved too many overlapping authorities held by the former employee responsible for the series of thefts that occurred from December 1994 to April 1996. The subsequent A-133 audit report did cite the theft as an immaterial instance of noncompliance, but did not identify any control weakness.

Although the annual audits disclosed no deficiencies, this audit found indications of cooperating sponsors' possible deficient food care that may require an assessment of the adequacy of their food care by the mission in order to determine whether the cooperating sponsor should pay for the food loss. One example was a CRS report on a loss of 154 kilograms of vegetable oil ($139). The report explained that due to the lack of physical space the cans of vegetable oil were stacked higher than usual and the pressure caused the lower cans to leak. Another example was a SHARE loss of two bags of rice weighing 300 kilograms ($154). A SHARE record explained that the loss occurred somewhere in either one of its two warehouses or during the movement of food between them.

This audit also found two areas where the cooperating sponsors' supervision of food care by recipient agencies and distribution centers may require an assessment by the mission. First, cooperating sponsors had different policies on when they would perform a follow-up on a loss reported by their recipient agency or distribution center. For example, SHARE's policy was to accept losses of three percent for rice, corn soy blend, and beans, five percent for corn, and two percent for oil. By contrast, CRS policy is five percent for all types of commodities, except no minimum for losses by a transit (or truck) company. Second, cooperating sponsors had records on food losses by recipient agencies and distribution centers, but these records did not address whether the organization with the loss practiced reasonable care of the food. For example, a SHARE record showed one recipient agency reported loss of 609 kilograms of rice ($256) at a community distribution facility due to decomposition caused by rain. Another example was a CRS loss report which disclosed a theft of 793 kilograms or 36 cans of vegetable oil ($775) at a recipient agency's warehouse. The recipient agency reported the break-in to the local police and decided to use another warehouse.

To determine whether a cooperating sponsor should pay for its food losses and whether a cooperating sponsor properly determines if food losses by recipient agencies or communities' distribution centers should be paid, one factor is the proper care, storage, and handling of food. The mission should ensure that commodities are cared for properly.

Recommendation No. 2: We recommend that USAID/Guatemala revise its policies and procedures concerning food losses to reasonably ensure that implementing organizations under its Public Law 480 Title II food commodity program (a) properly store, care, and handle commodities, and (b) have an adequate system for monitoring food care by their recipient agencies and distribution centers.

Management Comments and Our Evaluation

In response to the draft audit report, the Mission agreed with this report and recommendations.

USAID/Guatemala's comments are reproduced in Appendix II.

Scope and Methodology

Scope

We audited USAID/Guatemala's management of P.L. 480 Title II commodity losses in accordance with generally accepted government auditing standards. The fieldwork was conducted in September 1999 at USAID/Guatemala and the four participating organizations (or cooperating sponsors) in the mission's food program, namely, CARE/Guatemala, CRS/Guatemala, FTC/Guatemala, and SHARE Association of Guatemala. Our audit work was limited to the food commodity losses identified in the tracking system of USAID/Guatemala for fiscal years 1997, 1998, and the first half of fiscal year 1999 and mission actions since fiscal year 1997.

The audit was not intended to determine whether the exact amount of all food losses had been identified and reported to USAID/Guatemala and whether participating organizations were managing their food commodity losses in accordance with Regulation 11. We did not visit any port, trucking company, cooperating sponsors' warehouses, recipient agencies, or distribution centers to review their processes regarding the receipt and distribution of commodities nor did we review the documentation supporting distribution of the commodities from the warehouses to recipients.

According to the available records, P.L. 480 Title II food commodities in Guatemala totaled 81,974 metric tons for the 30-month period and the reported food losses totaled about 221 metric tons or .27 percent (that is, about a quarter of one percent). USAID/Guatemala estimated the value of the food commodities, excluding the food for emergency, at about $42 million for the three fiscal years. So, the value of the reported food losses was approximately $121,000.

The reported categories of losses were: ocean losses by maritime shipping companies, port losses by port authorities, transit losses by trucking companies transporting from the port to cooperating sponsor's warehouses and from warehouse to recipient agencies, warehouse losses by cooperating sponsors, recipient agency losses, and distribution center losses.

Since claims against maritime shipping companies for ocean losses were pursued in the United States (by the U.S. Department of Agriculture for all cooperating sponsors except for CARE and CRS, which pursued their own claims), we did not review collections and remittances for ocean losses.

Methodology

To answer the audit objective, we interviewed responsible USAID/Guatemala officials and reviewed mission food program files. We focused on the mission's tracking system for food losses reported by participating organizations, the mission's guidance sent to cooperating sponsors, and the mission's actions on reported food losses. After the mission identified its tracking system as the cooperating sponsors' quarterly loss reports kept in mission files, we used the loss data of those reports covering October 1996 through March 1999 as our universe. For mission actions on losses, we considered such actions from October 1996 through September 1999.

We drew judgmental samples because the number of individual losses was small and the need to review each category of losses outweighed the need for a representative analysis. Also, we found only several mission records on actions taken on individual losses, which we wanted to include in our sample. We tried to select ten individual losses for each cooperating sponsor on the basis of (a) at least one relatively large loss from each category of loss cited in the quarterly loss reports and (2) individual losses discussed in mission records. These samples were for our visits with each cooperating sponsor. The purpose of these samples was to test whether the mission's tracking system had adequately captured loss data as reported by each cooperating sponsor. No sample was taken for one cooperating sponsor because it reported only two losses, one of which was a loss of one kilogram. We reviewed the other loss and performed other tasks as described below. See the next-to-last paragraph in this section for the size of each sample.

We obtained an understanding of mission management controls relevant to the management of food commodity losses. We reviewed mission policies, its control assessments for the prior two fiscal years, its organizational chart, mission reviews on the cooperating sponsors, available external audit reports on the cooperating sponsors, and interviews with responsible mission officials. We assessed the adequacy of management controls.

We considered the laws and regulations significant to the audit, including Regulation 11. We assessed the vulnerability of the mission program for the probability that significant noncompliance could occur and not be prevented by management controls. That is, we assessed the risk that noncompliance resulting from illegal acts could occur and have a significant effect on the audit objective. Although not directly related to the audit, we looked for indications of significant noncompliance by the cooperating sponsors.

After we visited the mission, we visited each cooperating sponsor. We held discussions with their management and responsible staff. Our principal interest was to verify mission's efforts with the cooperating sponsors. So, we discussed mission's management controls, such as written guidance, site visits, and audits of their food program, and their responsibilities for food distribution from arrival in Guatemala to sale to buyers or rationing to beneficiaries. We also discussed the cooperating sponsor's quarterly loss reports and the actions on losses, and then reviewed the cooperating sponsors' records for our sample of losses and for related items of interest surfaced in our discussion. Thus, we obtained documentary verification of mission efforts and other information, which led to two other matters and recommendations presented in the body of this report.

Our universe and sample at each cooperating sponsor were, as follows:

CARE	Universe, reported losses of 60,914 kilograms. Sample, 10 losses, 77,354 kilograms (which included 44,453 kilograms of ocean losses that were not reported).
CRS	Universe, reported losses of 111,742 kilograms. Sample, 12 losses, 44,291 kilograms.
FTC	Universe, reported losses of 4,001 kilograms. Sample, none.
SHARE	Universe, reported losses of 44,182 kilograms Sample, 9 losses, 10,629 kilograms.

We did not verify any totals, as noted in the audit report. However, we did verify that cooperating sponsors had supporting documents for the losses in our samples. We were not able to obtain consistent dollar values for all food losses and thus could not verify dollar values.

UNITED STATES GOVERNMENT

MEMORANDUM

Date:	December 8, 1999
From:	USAID/Guatemala Acting Director, Deborah Kennedy-Iraheta
Subject:	Draft audit report of USAID/Guatemala's Management of P.L. 480 Title II Commodity Losses (Report No. 1-520-00-00x-P)
To:	RIG/A/San Salvador, Timothy E. Cox

USAID/G-CAP reviewed the subject draft report. The Mission agrees with this report and recommendations.

USAID/G-CAP appreciates the auditors' efforts to improve our P. L. 480 Title II program.