

Regional Inspector General for Audit
Pretoria, Republic of South Africa

Audit of
USAID/Mozambique's P.L. 480 Title II Program
Commodity Losses

Report No. 4-656-98-003-P
June 30, 1998



memorandum

*Regional Inspector General
Pretoria*

DATE: June 30, 1998

TO: Mission Director, USAID/Mozambique, Cynthia Rozell

FROM: Acting Regional Inspector General/Pretoria, Peter Greene

SUBJECT: Audit of USAID/Mozambique's P.L. 480 Title II Program Commodity Losses, Report No. 4-656-98-003-P

This memorandum is our report on the subject audit. We have considered your comments on the draft report and have included them. Your comments appear in their entirety in Appendix II.

Based on the results of the audit, this report does not have any recommendations. I appreciate the cooperation and courtesy extended to my staff during the audit.

Background

P.L. 480 Title II food grants are used for emergency and development programs. Emergency programs are direct feeding activities to respond to short term unanticipated food shortages. Development programs provide food grants which are implemented by PVOs. Development activities include pilot programs for small-holder agriculture, nutrition and other child survival programs, community development, and small scale infrastructure development. A portion of Title II commodities can also be monetized to fund complimentary development activities.

Previous to 1997, the P.L. 480 Title II programs in Mozambique dealt with food distributions to dislocated Mozambicans and returning refugees in the rural areas. Food aid for the five-year period FY 1992-1996 exceeded 275,000 metric tons with a food and transportation value exceeding \$89 million.

Starting in FY 97, Title II programs focused on monetization of food to generate local currency for the use in developmental activities. The value of the FY 97 program was \$22.5 million for commodities and transportation.

Audit Objective

This audit was conducted as part of the RIG/Pretoria fiscal year 1998 audit plan. Specifically, the audit was designed to answer the following two questions:

- 1. Did USAID/Mozambique establish and implement a monitoring system to ensure that P.L. 480 Title II commodities were received, stored and distributed in accordance with USAID policies and procedures?**

- 2. Does USAID/Mozambique have a system in place to ensure that all local currency deposits are made and withdrawals used only for intended purposes?**

Audit Findings

1. Did USAID/Mozambique establish and implement a monitoring system to ensure that P.L. 480 Title II commodities were received, stored and distributed in accordance with USAID policies and procedures?

USAID/Mozambique established and implemented a monitoring system to ensure that P.L. 480 Title II commodities were received and distributed in accordance with USAID policies and procedures. Due to changes in the Title II program, as discussed below, we found storage of commodities was no longer required.

22 CFR Part 211, also known as USAID Regulation 11, sets forth the obligations of the cooperating sponsor regarding the planning, implementation, and monitoring of programs under the P.L. 480 Title II program. Part 211.4 covers the shipment of commodities including transfer of title and transportation costs. Part 211.5 covers storage including warehouse inspections and inventories. Part 211.5 also covers distribution of commodities including eligibility and monetization programs.

USAID/Mozambique ended all P.L. 480 Title II food distribution programs in FY 1996. Starting in FY 1997, the Title II program has consisted entirely of monetizing wheat and vegetable oil. Wheat and oil are shipped to Mozambique in bulk and sold to millers and refiners who process the commodities and sell them on the open market. Proceeds from the sale of commodities to the millers and refiners are used to finance development under a monetization program. There are six NGOs which use monetized funds for development programs. These six cooperating sponsors participating in the Title II program are formed into an umbrella group to establish and monitor the program. One sponsor, World Vision, is responsible for the call forward, transportation, and sale of commodities. World Vision is also responsible for the

distribution of the proceeds to the other cooperating sponsors. Each cooperating sponsor is a member of the Executive Committee which manages and oversees the monetization program. Through this oversight, the Executive Committee acts as a self policing force to ensure that sales are properly made, proceeds are collected, and correct distributions are made. USAID sits in an ex-officio capacity on the Executive Committee which allows it to stay up to date with the workings of the committee and the progress of the monetization program.

As an observing member of the Executive Committee, USAID can monitor the status of the monetization activity and review sales receipts and disbursements to participants. In addition, USAID can review monthly or quarterly reports which provide a statement of receipts, bank deposits, and disbursements made to cooperating sponsors. The Committee also provides USAID with oversight of World Vision's implementation of the monetization sales mechanism to ensure that it adheres to policy as set forth in the USAID Field Monetization Manual. Outside the Committee, USAID receives documentation to monitor commodity call-forwards, transportation schedules, and transport losses. Site visits are also made to review program progress.

The risk of losses under the Title II program is low. World Vision takes title to the commodities when they are loaded at the dock in the United States. The shipper is responsible for the commodities until they are off-loaded in Mozambique. When the commodities are off-loaded they become the responsibility of the millers or refiners. As a result, storage of commodities that are off-loaded is not an issue. Because the NGOs have virtually no exposure under the monetization program and because there is no PL 480 Title II food distribution program requiring warehousing, transportation, and distribution, the risk of losses under the Title II program is very low.

Based on the above, we have concluded that USAID/Mozambique has a system in place to ensure that P.L. 480 Title II commodities were received and distributed in accordance with USAID policies and procedures. Consequently, we are making no recommendations.

2. Does USAID/Mozambique have a system in place to ensure that all local currency deposits are made and withdrawals used only for intended purposes?

USAID/Mozambique has a system in place to ensure that all local currency deposits are made and withdrawals used only for intended purposes.

Ensuring all local currency deposits are made

22 CFR Part 211.5 sets forth the obligations of cooperating sponsors under the Title II program. Section (j) requires cooperating sponsors under the monetization program to monitor, manage, report, and account for the receipt and use of sales proceeds including the deposit of funds in

special interest bearing accounts.

World Vision is responsible for the call-forwarding, transportation, and sale of commodities. Proceeds from the sale of FY 1997 commodities amounted to \$15.3 million. These proceeds were placed in an umbrella account under the control of World Vision. Funds from the umbrella account were then distributed to the other cooperating sponsors on a previously agreed to distribution rate. Cooperating sponsors maintain these funds in separate monetized funds accounts. Both the umbrella account and the individual accounts are interest bearing.

Monitoring the collection and distribution of monetized funds is the responsibility of the Executive Committee. World Vision maintains a reconciliation of receipts which states the amount of commodity received, rate per ton, total proceeds and the millers/refiners payment schedule. With this information, members of the Executive Committee can monitor their share of the proceeds from each sale. USAID monitors these monetization activities through its role as an ex-officio member of the Executive Committee.

Based on the foregoing, we have concluded that USAID/Mozambique has a system in place to ensure that all local currency deposits are made.

Withdrawals used only for intended mu-noses

22 CFR Part 211.5(k) provides which uses of funds will be acceptable under P.L. 480 Title II monetization programs. Subsection (ii) cites acceptable uses for monetized funds including implementing income generating, community development, health, nutrition, cooperative development and agricultural development activities agreed upon by USAID and the cooperating sponsor.

The \$15.3 million in FY 1997 monetized funds from USAID/Mozambique's P.L. 480 Title II program are being used primarily for agricultural development activities. Following are some projects we visited to verify that monetized funds were being spent for uses acceptable under USAID Regulation 11.

- World Vision - Manica

Monetized funds from USAID/Mozambique's P.L. 480 Title II program are being used by World Vision to rehabilitate the Sussundenga Agricultural Research Station in Manica. The project, which started in October 1996, is divided into three components: rehabilitation of the stations infrastructure, seed multiplication, and adaptive applied research.

These three components qualify as agricultural development activities. The rehabilitation of the station's infrastructure, which includes rehabilitation of the irrigation system, is necessary for the station to carry out its functions. The seed multiplication program has sown fifty-eight hectares of fertile land with sunflower, maize, sorghum, millet groundnut and pigeon-pea seeds.

The adaptive applied research program aims to improve crop management practices and identify high yielding, pest resistant crop varieties. In total, twenty trials were planned.

- Save the Children Foundation - Nacala

Save the Children Foundation is using monetized funds to improve crop production in Nacala-a-Velha District in northeastern Mozambique. Additional monetized funds are being used to improve farm-to-market roads to give farmers a better opportunity to sell their produce. Crop production improvement is being attempted through the deployment of program extensionists. Extensionists form farm groups of approximately a dozen farmers each. The groups in turn develop demonstration plots to test various crops including maize, beans, and groundnuts to name a few. Improvements in farm-to-market roads are carried out through labor intensive cash-for-work programs. The improved roads provide farmers easier access to markets and the cash-for-work program provides a widely distributed wage earning opportunity for people within the target areas.

- Africare - Manica

Africare is using monetized funds on projects to increase commercial crop yields and improve human nutrition in Manica province. This is being done primarily through the introduction and expansion of oil seed production and increasing the availability of oil seed presses. By growing the oil seed, farmers are provided a cash crop or the oil from the seed. The oil product is the source of much needed vitamin A and the pressing process has created a cottage industry for local farmers.

Our review of these projects verifies that monetized funds were being spent for uses acceptable under USAID Regulation 11. In addition to the above programs, monetized funds are also being used by CARE for an oilseed and agricultural diversification program in Nampula, by Food for the Hungry for crop testing in Nhamatanda, and by ADRA for agricultural enhancement (cashew trees) and road rehabilitation in Memba.

Therefore, based on our site visits, discussions and documentation review and analysis we have concluded the funds derived from USAID/Mozambique's P.L. 480 Title II monetization program have been used for acceptable programs as provided under 22 CFR Part 211 S(k). Consequently, we are making no recommendations.

Management Comments and Our Evaluation

USAID/Mozambique did not have any substantive comments concerning the report but did make some editorial corrections which have been incorporated.

SCOPE AND METHODOLOGY

Scope

We audited USAID/Mozambique's monitoring of Title II commodities and monetized local currency activities in accordance with generally accepted government auditing standards. The audit was conducted from January through March 1998. Our audit period was fiscal year 1997 and included all USAID/Mozambique Title II commodity shipments made with fiscal year 1997 funds. Commodities shipped during FY 1997 included 58,489 metric tons of wheat and 6,000 metric tons of oil. Total value of commodities shipped was \$22.6 million including transportation. Of this amount, \$15.3 million was monetized.

Methodology

To answer the audit objectives, we reviewed the P.L. 480 Title II files in the Food for Peace Office at USAID/Mozambique. We reviewed documentation addressing the calling forward of commodities, survey reports on foods off-loaded, contracts with millers, and local currency payments to World Vision. In addition, we reviewed documentation at World Vision concerning the deposit of local currency and payments of local currency to other NGOs participating in the Title II monetization program.

We interviewed USAID/Mozambique officials along with World Vision officials and officials at the five other NGOs participating in the monetized Title II program. In addition, in March 1998 we visited six field programs funded with monetized funds. These programs included: the Food for the Hungry program in Nhamatanda; Africare in Manica; World Vision in Manica; Save the Children in Nacala; CARE in Ribaué; and World Vision in Muecate. We reviewed the programs in operation and interviewed program officials.

Our documentation review allowed us to evaluate the information available to the Mission and provided us with the information necessary to answer the first objective. Our interviews with Mission, NGO, and program officials and our review of NGO and program documents provided us with the information necessary to answer the second audit objective.



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Memorandum

To : Regional Inspector General/Pretoria, Joseph Farinella

From : Mission Director, USAID/Mozambique, Cynthia F. Rozell

Date : June 16, 1998

Reference : USAID/406/98/mk

Subject : Audit of USAID/Mozambique's P.L. 480 Title II Program
Commodity Losses, Report No. 4-656-98-003-P

Dear Mr. Farinella,

We refer to the above audit and to your memorandum dated May 20, 1998, requesting comments for inclusion in the final report. We the Mission has no substantive comments to add, there are a few editorial corrections, which we have note below for your consideration when issuing the final report.

Page 3, paragraph 1:

"... on the Exocutive Committee which allows then to stay ..." - please replace "then" with "it".

Page 3, paragraph 2:

"... , USAID receives documentation to monitor commodity call-ups, transportation schedules, and ship losses." - please replace "call-ups" with "call-forwards", and replace "ship losses" with "transport losses".

Page 3, No. 2, paragraph 3:

"... World Vision is responsible for the call transportation and sale of commodities." Please replace this sentence with the following: "World Vision is responsible for the call forwarding, transportation, and sale of commodities."

- Page 2 -

Page 3, World Vision - Manica, paragraph 2:

"In total twenty trials were planned." - please replace with "In total, twenty trials were planned."

Page 5, Africare - Manica, paragraph 2:

Please note that "Food for the Hungary" should read "Food for the Hungry".

Page 7, Methodology, paragraph 2:

Please note that "Food for the Hungary" should read "Food for the Hungry".

Thank you for the opportunity of commenting on the contents of the draft audit report.