United States Department of Agriculture

Office of Inspector General

Private Voluntary Organization Grant Fund Accountability



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March 2014

Private Voluntary Organization Grant Fund Accountability

Audit Report 07601-0001-22

What Were OIG's Objectives

To determine if FAS has adequate controls to ensure that PVOs are making proper use of program funding to efficiently and effectively operate agreements in achieving Food for Progress food aid program objectives.

What OIG Reviewed

We reviewed FAS' internal controls for administering Food for Progress Program agreements for fiscal years 2009 through 2012, including agreement monitoring and agreement closeout processes. We also reviewed prior OIG and GAO reports, and FAS' corrective actions taken in response to those reports.

What OIG Recommends

FAS should designate a responsible official to oversee the development and implementation of controls and measures and to periodically assess the effectiveness of corrective actions taken to the program's weaknesses. Also, FAS should recover unallowable costs charged to two PVOs' agreements and review and recover any additional unallowable or unsupported costs.

OIG evaluated whether FAS has adequate controls to ensure that PVOs are making proper use of Food for Progress Program food aid program funds.

What OIG Found

The Foreign Agricultural Service's (FAS) Food for Progress Program, which totals approximately $734.5 million, seeks to improve agricultural productivity and expand agricultural trade. OIG's prior reviews of FAS' food aid programs disclosed internal control weaknesses with its monitoring and closing of food aid agreements. As a result of our previous audits, FAS has implemented corrective actions, such as developing and implementing a Food Aid Information System for administering food aid program agreements, providing staff training, issuing new regulations, and hiring consultants to assess its management controls over its food aid programs.

However, our current audit of FAS' Food for Progress Program identified similar, significant program management control weaknesses. FAS does not have effective controls in place to monitor and close out agreements. Also, FAS' controls did not ensure that: (1) Private Voluntary Organizations (PVO) reported financial information completely and accurately in their semiannual reports, (2) PVOs established separate bank accounts to administer agreements, and, (3) interest earnings were remitted on advanced Commodity Credit Corporation administrative funds. This occurred because FAS lacks strong management over the program. We found that FAS had not fully overseen these program agreements, nor had it implemented performance indicators or measures to assess its accomplishments. These weaknesses resulted in questioned and unsupported costs totaling $685,646, and funds to be put to better use totaling $8,481.

Without strengthening its oversight of Food for Progress Program agreements, FAS cannot ensure Federal resources are used efficiently and effectively. While FAS generally agreed with all recommendations, we accepted management decision on 6 of the 11 recommendations.

United States Department of Agriculture
Office of Inspector General
Washington, D.C. 20250

DATE: March 31, 2014

AUDIT NUMBER: 07601-0001-22

TO: Philip Karsting
Administrator
Foreign Agricultural Service

ATTN: Kim Cash
Director
Compliance, Security and Emergency Planning Division

FROM: Gil H. Harden
Assistant Inspector General for Audit

SUBJECT: Private Voluntary Organization Grant Fund Accountability

This report presents the results of the subject audit. Your written response to the official draft report, dated March 11, 2014, is included in its entirety at the end of this report, and the Office of Inspector General's position is incorporated into the relevant sections of the report.

Based on your written response, we accept management decision on Recommendations 2, 7, 8, 9, 10, and 11. We are unable to accept management decision on Recommendations 1, 3, 4, 5, and 6. The documentation or action needed to reach management decision for these recommendations are described under the relevant OIG Position sections.

In accordance with Departmental Regulation 1720-1, please furnish a reply within 60 days describing the corrective actions taken or planned, and timeframes for implementing the recommendations for which management decisions have not been reached. Please note that the regulation requires management decision to be reached on all recommendations within 6 months from report issuance, and final action to be taken within 1 year of each management decision to prevent being listed in the Department's annual Agency Financial Report. Please follow your internal agency procedures in forwarding final action correspondence to the Office of the Chief Financial Officer.

We appreciate the courtesies and cooperation extended to us by members of your staff during our audit fieldwork and subsequent discussions. This report contains publically available information and will be posted in its entirety to our website (http://www.usda.gov/oig) in the near future.

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Background and Objectives

Background

The Foreign Agricultural Service (FAS) administers and oversees the United States Department of Agriculture's (USDA) grant programs that provide United States agricultural commodities to feed millions of hungry people in needy countries through direct donations and concessional programs. Food aid may be provided through four program authorities:

- *Food for Peace Act* (formerly referred to as Public Law 480, Title I).[1]
- *Food for Progress Act of 1985*.
- Section 416 (b) of the *Agricultural Act of 1949*.
- The McGovern-Dole International Food for Education and Child Nutrition Program.

Food for Progress Program

The Food for Progress Program provides donated commodities, through Private Voluntary Organizations (PVO), to developing countries and emerging democracies that have made commitments to introducing and expanding free enterprise elements in their agricultural economies. The Food for Progress Program's principle objectives are to improve agricultural productivity and expand trade of agricultural products for the Food for Progress Program.[2] Funding for the program is provided by the Food for Progress Act of 1985 and Food for Peace Act.[3] Agreements are awarded to foreign governments, PVOs, non-profit agricultural organizations, cooperatives, intergovernmental organizations, or other private entities.[4] Under this program, participants use the donated commodities or proceeds from the monetization[5] of such commodities to implement humanitarian and developmental activities in recipient countries, pursuant to an agreement with Commodity Credit Corporation (CCC).

The 2008 Farm Bill extended the Food for Progress Program authority to provide assistance to PVOs in the administration and monitoring of the food assistance programs through fiscal year (FY) 2012. This authority was extended by Congress through September 30, 2013.[6] CCC is

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[1] Since FY 2006, new funding for the Food for Peace Program has not been requested because demand for food assistance using credit financing has fallen or grant programs have been a more appropriate tool.

[2] Food for Progress Program objectives.

[3] According to a Congressional Research Service report, International Food Aid: Background and Issues, May 2013, the Food for Progress Program authorizes CCC to carry out the sale and export of U.S. agricultural commodities on credit terms or on a grant basis, using either CCC financing or Title I funds. No new funding of Title I credit sales and grants has been appropriated since FY 2006, although some funding has been provided to administer previously entered into Title I program agreements.

[4] For the purpose of consistency, non-governmental, non-profit organizations, cooperatives, and intergovernmental organizations operating food aid grants will be referred to hereafter as PVOs.

[5] Monetization is the process of selling donated United States food aid commodities, in the developing country, to fund agreement activities.

[6] *American Taxpayer Relief Act of* 2012, Title VII—Extension of Agricultural Programs, Section 701, 1-Year Extension of Agricultural Programs, dated January 2, 2013. The Agriculture Act of 2014 reauthorized the Food for Progress Program.

authorized to provide $15 million for administrative costs under the grants and $40 million for transportation costs. These funds are used to cover expenses involved in the administration and monitoring of the activities under the agreements, technical assistance related to the monetization of donated commodities, and transportation, storage, and handling costs for the donated commodities. If authorized by the agreement, CCC will pay these funds to the PVOs on a reimbursement basis. Food for Progress Program funding for FYs 2009 through 2011 was as follows:

Food For Progress Program Funding		
Fiscal Year	**Funding**[7] **(millions)**	**Commodities (metric tons)**
2009	$200	303,400
2010	$147	196,400
2011	$164	240,200
TOTAL	**$511**	**740,000**

The Office of Capacity Building and Development (OCBD), Food Assistance Division (FAD) within FAS is responsible for administering and evaluating Food for Progress Program agreements from the proposal (pre-award) stage throughout the duration of the agreements. FAD's responsibilities, in part, include monitoring agreements through review of required reports covering agreement activities. Participating PVOs must submit semiannual logistics and monetization (LogMon) reports, which detail the receipt and disposition of donated CCC commodities, including the in-country sales proceeds from commodities monetized, income earned from monetized commodity funds, and disbursements of monetized commodity funds. Such reports should be submitted to FAS by the dates and for the reporting periods specified in the agreement, until all of the sale proceeds and income have been disbursed and reported to FAS. Additionally, PVOs are required to submit quarterly Financial Status Reports, using Standard Form SF-269, in accordance with their agreement. FAS allows PVOs to submit the quarterly Financial Status Reports on a semiannual basis, along with their LogMon reports.[8]

FAD also performs in-country reviews of PVOs to observe project operations, or perform specific assessments. FAS' OCBD Management and Evaluation Staff (MES) perform closeout reviews of Food for Progress Program agreements. Closeout reviews allow FAS to assess PVOs' administration of a particular food aid agreement from start to finish.

Since March 1999, we issued two audit reports addressing FAS' administration of food aid programs.[9] In March 2006,[10] we reported that FAS had not implemented OIG audit recommendations first reported in our March 1999 report.[11] The 2006 audit identified five key

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[7] Funding represents commodity and transportation values from FAS' Food Aid Database System. FAS' Food for Progress Program agreement portfolio totaled approximately $734.5 million as of September 2011.
[8] Within a semiannual period, two quarterly Financial Status Reports can be submitted to FAS by the PVOs.
[9] 50801-6-At, *FAS Food for Progress Program PVO Grant Fund Accountability*, March 1999, and 07601-0001-At, *FAS PVO Grant Fund Accountability*, March 2006.
[10] OIG Audit 07601-0001-At, *FAS PVO Grant Fund Accountability*, March 2006
[11] OIG Audit 50801-6-At, *Food for Progress Program PVOs Grant Fund Accountability*, March 1999.

weaknesses in FAS' approval and monitoring of PVO agreements. FAS did not: (1) ensure that PVOs had received the host countries' official recognition, (2) conduct adequate onsite reviews of PVOs, (3) ensure that PVOs had timely and accurately provided semiannual reports of their operations/expenditures, (4) actively or aggressively pursue mismanaged or lost agreement funds from PVOs, and (5) perform a review or assessment of PVOs' past performance prior to approving new agreements.

We recommended that FAS: (1) implement management controls for reviewing semiannual reports, conducting on site reviews, and timely completing closeout reviews of all agreements; (2) confirm that PVOs have received the host countries' recognition before agreements are finalized; (3) verify that PVOs have complied with all financial requirements prior to delivery or receipt of donated funds or commodities; (4) aggressively recover mismanaged agreement funds; and (5) document and review PVOs' past performance as part of their application to receive new food aid agreements. See Exhibit B for corrective actions taken on these recommendations.

GAO issued an audit report[12] in May 2011 of its review of another food aid program, the FAS McGovern-Dole Food for Education Program. GAO recommended that FAS (a) establish a monitoring process that would systematically analyze and report on a preselected set of indicators that directly measures the McGovern-Dole Program's progress toward achieving its objectives; (b) develop policies and procedures to guide evaluation of completed projects; and (c) formalize policies and procedures for closing out grant agreements and establish guidance for when agreements should be closed. FAS agreed with GAO's recommendations, acknowledging that proper monitoring and evaluation are essential to improving the quality of measuring the results of the McGovern-Dole program.

Objectives

Our overall audit objective was to evaluate whether FAS had adequate internal controls to ensure that PVOs are making proper use of program funds to efficiently and effectively operate Food for Progress Program agreements and achieve program objectives.

[12] *International School Feeding—USDA's Oversight of the McGovern-Dole Food for Education Program Needs Improvement*, May 2011.

Section 1: FAS Internal Controls over Food for Progress Program Agreements

Finding 1: FAD Needs to Develop and Implement Effective Controls for Improving the Integrity of the Food for Progress Program

One of the fundamental elements to improve oversight of Federal programs is to timely establish and maintain an internal control structure designed to efficiently and effectively achieve program objectives. For more than the past decade, FAD has taken steps to improve its internal control structure for the Food for Progress Program through implementing corrective actions to recommendations, based on weaknesses identified in previous audits. This has included, for instance, implementing a new Food Aid Information System (FAIS),[13] issuing additional regulations, providing staff training in agreement evaluation procedures, and hiring a consultant to assess the program's controls to better monitor agreements.

Yet, our current audit identified significant control weaknesses similar to those reported in prior Office of Inspector General (OIG) reports. Specifically, current FAS controls did not provide for followup on missing PVOs' semiannual reports, provide adequate reviews of PVO documentation supporting information reported, ensure PVOs established separate bank accounts to administer agreements, and ensure PVOs remit interest earnings on CCC advanced administrative funds.[14] These deficiencies occurred because FAS has not developed a strong management control environment for the Food for Progress Program that includes sufficient oversight and accountability to ensure corrective actions were fully implemented. FAS had also not developed and implemented indicators or measures to assess staff performance in meeting its responsibilities. As a result, FAS cannot promptly determine whether PVOs properly carry out Food for Progress Program agreements, whether projects are on track to achieve intended results, or whether program funds have been used for their intended purposes. In total, we questioned the use and accounting of $685,646 of program funds, and funds to be put to better use, totaling $8,481.

Office of Management and Budget (OMB) Circular A-123 requires appropriate internal control to be integrated into each system established by agency management to direct and guide its operations. Deficiencies found in internal controls should be reported to the appropriate personnel and management responsible for that area. Deficiencies identified whether through internal review or by an external audit should be evaluated and corrected. A systematic process should be in place for addressing deficiencies. *OMB Circular A-123* also provides that management should identify internal and external risks that may prevent the organization from meeting its objectives. When identifying risks, management should take into account relevant

[13] An FAS official informed us that FAS has challenges in information technology, as the Department has implemented new accounting systems, Federal Management Modernization Initiative and Web Based Supply Chain Management, which further complicated FAIS' implementation. The official said the systems are not fully interfaced yet, but progress is being made. The official informed us the deficiency was reported in their annual *OMB Circular A-123* certification.

[14] An FAS official stated that the agency has recently developed draft SOPs to address these weaknesses, but they were implemented too recently for us to determine their effectiveness.

interactions within the organization, as well as with outside organizations. Management should also consider previous findings when identifying risks.

Our review disclosed that FAD implemented a monitoring and evaluation policy that provides for the integration and implementation of monitoring and evaluation systems and processes into the Food for Progress Program. The policy provides for PVOs to develop project monitoring and evaluation plans that include a program-results framework that links to the FAD program framework. FAD points out in its policy that the monitoring and evaluation information will be used by the agency to meet its regular reporting and accountability requirements. Our analysis of FAD's monitoring and evaluation policy determined that it focuses on PVOs' performance monitoring and evaluation systems in implementing their projects. However, the monitoring and evaluation policy does not emphasize measures that point to FAD's overall performance in administering the Food for Progress Program, as the agency indicated in its response to our prior audit.

FAS' Compliance, Security and Emergency Planning staff performs management reviews of program efficiency and effectiveness. We determined that FAS' Compliance staff had not conducted any management reviews of FAD since FY 2008. Instead, an FAS official stated that a decision was made to have an independent review of food aid programs performed to ensure FAS' compliance with the provisions of *OMB Circular A-123* in their internal control system. Therefore, they contracted with a consultant to perform an internal control assessment of the FAS Food for Progress Program.

This consultant's report, completed in September 2009, disclosed potential control gaps in the Food for Progress Program grants monitoring process and significant control weaknesses in the closeout process. The consultant recommended that FAS consider: obtaining additional resources to conduct a more thorough level of monitoring, increasing resources to effectively perform the required oversight and monitoring functions, devising and implementing policies and procedures that clearly define final close out procedures, and including removal of obligations from the system for expired grants or grants with a final flag on the SF-269.[15]

FAS officials provided us with their corrective actions to address these significant control weaknesses that included (1) filling four vacancies which fully staffed the Food for Progress Program branch, (2) issuing Standard Operating Procedures (SOP), (3) implementing the FAIS to manage and administer its food aid programs, and (4) implementing the multi-agency WebSCM system. However, the consultant's review assessed and documented the Food for Progress Program controls, but noted that only limited testing of some of these controls was performed. The report further noted that FAS needed to complete testing of this program in order to confirm which controls were operating effectively. An FAS official stated that the agency had planned to contract with this consultant for a followup review, but funding limitations prevented a timely follow up. In FY 2013, FAS contracted with another consultant to assess the effectiveness of FAS' implementation of the recommendations and controls recommended by the prior consultant. This new consultant completed its report in September 2013.

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[15] USDA FAS *Internal Controls Assessment of the Foreign Agricultural Service Food for Progress Program*, September 30, 2009.

Based on these recurring weaknesses, we sought to determine if FAD uses any tools, such as a risk assessment,[16] to identify its Food for Progress Program vulnerabilities, including administrative/oversight activities. We learned from a FAD official that FAS performs an overall risk assessment to develop improper payment estimates for departmental outlays related to *OMB Circular A-123* reviews. The official further commented that these reviews are primarily related to the financial process, but not to individual programs. FAD will benefit from implementing recommendations from the recently completed risk assessment of the Food for Progress Program to identify its program risks and vulnerabilities to better assess where added program controls are needed. Our review highlighted weaknesses in the monitoring of active agreements and the closeout of completed agreements.

A. Monitoring Controls for Active Food for Progress Program Agreements

FAD continues to experience weaknesses in its monitoring of active Food for Progress Program agreements. We found that FAD (1) did not always receive and review semiannual reports for monitoring agreements, (2) cannot reasonably ensure the integrity of the financial information reported by PVOs in semiannual reports, (3) cannot confirm that PVOs established separate bank accounts to administer agreements, or (4) did not ensure PVOs remitted interest earnings on CCC advanced administrative funds. This occurred because FAS' management did not formalize and implement policies and procedures necessary to improve its monitoring of ongoing Food for Progress Program agreements and had concluded that FAIS would resolve these issues. FAS officials attributed these weaknesses to (1) lack of staffing and a mandate to cut travel expenses, (2) working in an uncertain budget environment where they did not know what resources they had to oversee and implement corrective actions, and (3) higher priority given to awarding of grants as compared to grant monitoring.

1. FAD Did Not Always Timely Receive and Review PVOs' Semiannual Reports

Food for Progress Program participants are required to submit a LogMon report and quarterly financial status report to FAD on a semiannual basis.[17] According to FAS' Food Assistance Program Implementation Guidebook, the LogMon and financial status reports provide FAD with a description of how an agreement is progressing and how agreement funds are being used.

We reviewed a sample of 11 agreements[18] and determined that 10 of those agreements were missing at least 2 and as many as 18 LogMon or quarterly financial status reports covering agreement activities from FYs 2009 through 2011. For 2 of the 10 agreements in question, FAD was not able to support that it received any of the required reports for FYs 2009 through 2011 activities. Also, FAD had no support for followup actions taken with PVOs to obtain the missing

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[16] A risk assessment serves as a tool that management can use to identify internal and external program risks that may impact its effectiveness in administering programs in accordance with objectives.
[17] Reporting requirements are specified by Title 7 CFR section 1499.13 and 7 CFR sections 3019.51 and 52, and Food for Progress Program agreements.
[18] Sample derived from FAS "Reports Received Log" maintained by an FAS program official. FAS' Reports Received Log showed a total of 65 Food for Progress Program agreements with one or more missing LogMon or financial status reports. Eleven of the 65 agreements showed 5 or more missing LogMon or financial status reports. We followed up with FAS on the 11 agreements.

reports, nor could it provide a formal policy detailing required actions to address delinquent or missing semiannual reports. Without these reports, FAD could not properly monitor PVOs' activities to ensure they complied with terms of their agreements.

FAS' management believed that FAIS would improve their ability to determine if reports were missing because they informed us that missing report alerts would be sent to analysts and PVOs. However, FAS management recently found out that FAIS does not capture all the information they thought and contain the controls that were explained. The official said that the recently completed consultant's review and work with the new systems have disclosed concerns that are being addressed, such as management reports and automated alerts for delinquent reports. While FAS' Monitoring and Evaluation Handbook addressed LogMon and financial status reporting requirements for PVOs, it did not provide for detailed required actions of the agency when these reports were delinquent or missing. When we discussed this finding with FAD, its officials informed us they will penalize PVOs on future proposals in addressing delinquent reports. They provided us with an informal document identified as a SOP for handling reports through the FAIS, with specific detailed actions for FAD analysts to follow when reports are missing. We noted, however, that FAIS does not have a built-in control to automatically alert analysts and FAS' management of missing PVO reports.

While penalties on future proposals of PVOs may be beneficial, this action does not provide resolution for delinquent semiannual LogMon reports for the active agreements. We maintain that FAD still needs improved management oversight and a formal policy or procedure addressing its responsibilities for delinquent or missing semiannual reports. Delinquent or missing semiannual LogMon reports negatively impacts FAD's' ability to timely and effectively monitor, as well as timely close, Food for Progress Program agreements.

We previously reported FAS' weaknesses in monitoring semiannual LogMon reports in our March 2006 audit report. We recommended that the agency implement management controls for reviews of semiannual LogMon reports, as the agency had agreed upon in response to our March 1999 report. For final action, FAS provided the Office of the Chief Financial Officer with a copy of its Monitoring and Evaluation Handbook, and confirmed that its planned training of staff in evaluation procedures for agreements was completed in January 2006. However, our analysis of the monitoring and evaluation handbook disclosed that there were no detailed procedures addressing controls over FAD's receiving and reviewing semiannual reports. FAD did not always have documentation to support its review for those semiannual LogMon and financial status reports received. FAS recently developed a draft SOP to address these controls.

2. *FAS' Monitoring Was Not Sufficient to Detect PVOs' Unallowable Costs for Active Agreements*

Though FAD's management controls provide for routine review of LogMon and financial status reports, it does not provide for FAD to review supporting documentation of project costs in these reports.[19] FAS officials explained that the reports are reviewed to ensure that the actual reported activities match the objectives of the agreement and that they do not verify costs as part of their reviews of the PVOs' reports. FAS officials stated that they rely on the A-133 audits of the PVOs to ensure costs are proper. We reviewed supporting documentation for two Food for Progress Program agreements administered by the PVO TechnoServe and found questioned and unsupported costs of $652,816 (see Exhibit A).[20]

We determined TechnoServe charged unallowable costs, totaling $132,352,[21] on a 2007 and a 2010 Food for Progress Program agreement as follows:

- In the 2007 agreement, TechnoServe charged expenses totaling $77,888 for monetization services of commodities that, based on the invoice date, took place prior to the effective date of the 2007 Food for Progress Program agreement. The invoice for the monetization services was dated March 2007, 5 months prior to the effective date of the PVO's 2007 Food for Progress Program agreement. Our review disclosed that the commodities for the 2007 agreement were monetized during 2008. The amount of monetized commodities disclosed in this invoice matched a commodities shipment amount associated with a 2006 food aid agreement. Therefore, we concluded that these expenses were associated with an earlier 2006 food aid agreement the PVO had with FAS.
- In another instance, TechnoServe charged expenses for consulting services and lodging in its 2007 Food for Progress Program agreement, totaling $13,500 and $27,463, respectively. Our review of supporting documentation disclosed these expenses were for a seminar associated with the PVO's 2010 Food for Progress Program agreement and, therefore, were not eligible expenses for the 2007 agreement. TechnoServe's 2007 and 2010 Food for Progress Program agreements contain distinct objectives and activities. In signing each agreement, TechnoServe officials agreed to use monetization proceeds in accordance with the activities outlined in each agreement. Federal regulations provide that recipients are required to report deviations from budget and program plans, and request prior approvals for budget and program plan revisions.[22]

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[19] FAS' *Food Assistance Program Implementation Guidebook* provides that full accounting of funds must be maintained by the participant. Accounting records must (1) contain information pertaining to Federal awards, authorizations, obligations, unobligated balances, assets, expenditures, and interest; (2) provide a comparison of expenditures with budgeted amounts; and (3) be supported by source documentation. An adequately documented expenditure is one that can be supported with a proof of payment document (cancelled check, official receipt, bank wire transfer advice, etc.) and accompanying invoices, receipts, travel documents, vouchers, contracts, purchase orders, time sheet, etc., as applicable to the nature of the transaction.

[20] The $652,816 aligns with the sum of Exhibit A line item amounts $132,352 and $520,464.

[21] The unallowable costs figure of $132,352 is rounded from the PVO's expenses in question, totaling $132,351.56 ($77,888.16, $13,500.00, $27,463.40, and $13,500.00)

[22] Title 7 CFR 3019.25, dated January 1, 2003.

- We also found that the same $13,500 consulting service expense was duplicated as an expense in TechnoServe's accounting records for the 2010 Food for Progress Program agreement. The expense was incurred in advance of the 2010 agreement date and had not been approved by FAS. PVOs are required to obtain FAS' approval to use monetization sale proceeds for expenses incurred in advance of the agreement date.[23]

TechnoServe's officials agreed with our position that the costs were unallowable. They offered no explanation as to why these events occurred. FAS officials acknowledged they had not approved any costs prior to signing the agreements in question.

Additionally, TechnoServe could not support $520,464 of costs reported under its 2006 Food for Progress Program agreement. In its final LogMon report for the 2006 agreement, the PVO reported expenses of $520,464, while reporting a reduction of an equal amount of expenses in its final LogMon for the 2007 agreement.[24] TechnoServe officials informed us that, due to the lack of supporting spreadsheets and backup files available, they were unable to explain the reporting or provide details of the $520,464 in expenses. In addition, officials told us that key accounting personnel at that time have since left the organization and that the accounting system at that time made it very difficult to identify the actual expenses reported. They stated that their new accounting system better captures project costs by cost center to more accurately charge expenditures to projects.

In our March 2006 audit report, we recommended that FAS establish and implement procedures to conduct detailed evaluations of all open food aid agreements with activities still underway. FAS responded that it improved evaluation procedures in its *Monitoring and Evaluation Handbook*, and provided training in agreement evaluation procedures for monitoring and programming staff. FAS expected to have more resources available for greater review of open agreements since the number of new agreements entered into had been dropping since 2003. Despite these efforts, we continue to note weaknesses in its monitoring process.

FAS' compliance review staff conducts compliance reviews of food aid program agreements to evaluate PVOs' compliance with Food for Progress Program requirements. PVOs' agreements are randomly selected for review, but are sometimes also conducted for organizations that have a history of known problems. The compliance review procedures include verification of supporting documentation from the PVOs. From FYs 2006 through 2012, FAS compliance staff conducted 21 Food for Progress Program reviews. TechnoServe was not selected for a compliance review from FYs 2006 through 2012. We concluded that FAS did not establish a minimum cycle for PVO reviews, such as once every five years.

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23 Title 7 CFR 1499.5, dated January 1, 2003.

24 The $520,464 unsupported costs reduction from the PVO's 2007 agreement expenses was based on its determination that the costs were for expenses associated with a 2006 Food for Progress Program agreement. Even so, the PVO lacked supporting documentation for the $520,464 in costs reported to OIG. Due to the PVO's lack of supporting documentation, OIG was not able to validate the figures.

3. FAS Did Not Ensure that PVOs Maintained Separate Bank Accounts

Title 7 *Code of Federal Regulations* (CFR) section 1499.11(e) provides that the participant shall deposit all sale proceeds and income into a separate, interest-bearing account.[25]

In our 2006 audit report, we recommended that FAS amend the regulations to require PVOs and other cooperating sponsors to provide evidence that they have opened separate in-country bank accounts for deposit of monetization proceeds and disbursement of local funds to conduct program operations. Our current review disclosed that FAS did incorporate changes into the application process for agreements requiring PVOs to assure that sale proceeds and income received would be deposited into a separate interest-bearing account and disbursed from said account for use only in accordance with the agreement.[26]

Despite PVOs certifying on their financial reports that they would establish a separate interest-bearing account, we did not find internal controls in place for FAD to confirm that PVOs established separate accounts for in-country agreement activities. In fact, we found that TechnoServe did not maintain a separate interest-bearing bank account for monetization funds for its 2010 Food for Progress Program agreement.[27] TechnoServe maintained a series of bank accounts (in-country and United States-based) for all of its program activities, where funds from USDA and private entities were deposited and commingled. FAD did not verify that TechnoServe's ledgers reconcile to supporting bank statements and did not require the PVO to certify that its project bank account is not commingled with other funds. As a result, we could not confirm an accurate fund balance of monetization funds for the agreements.

Also, for TechnoServe's 2007 agreement, we could not determine the accuracy of interest earned because the funds were not maintained in dedicated agreement bank accounts. We determined that $288,806 in interest earned was recorded in the PVO's general ledgers and related bank statements. However, TechnoServe reported only $265,180 in interest on its revised LogMon report. Thus, TechnoServe understated $23,626 of interest earned for deposited monetization proceeds on the LogMon reports.

4. Interest Earnings Were Not Remitted to CCC

Food for Progress Program regulations require PVOs to return advanced CCC administrative funds and accrued interest if the funds have not been obligated by the PVO by the 180th day after the advance was made. Also, the regulations require advanced CCC administrative funds to be held in an interest-bearing account.[28] Such funds and interest must be transferred to FAS within 30 days of the expiration date. FAS advanced CCC administrative funds for three of the six PVO agreements reviewed. In two of these instances, the PVOs held the advanced funds in

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[25] Title 7 CFR section 1499.11(e) also includes exceptions to this requirement that are contained in section 3019.22(k) of this title. FAS may exempt a PVO from this requirement if the account is in a country where the laws or customs prohibit the payment of interest or FAS determines that this requirement would constitute an undue burden.

[26] FAS amended the Food for Progress Program regulations, effective May 2009, requiring PVOs to deposit all sale proceeds and income into a separate interest-bearing bank account for PVO activities.

[27] TechnoServe's 2010 Food for Progress Program agreement was signed September 29, 2010.

[28] Title 7 CFR section 1499.6.

excess of 180 days, and FAS was not able to support or explain why it did not follow up with the PVOs as to the status of the funds.

- For example, PVO Agricultural Cooperative Development International and Volunteers in Overseas Cooperative Assistance (ACDI/VOCA) was initially advanced $754,035 in CCC administrative funds during the quarterly reporting period ended March 31, 2009, thereby reaching its 180-day time limit on holding the funds by September 30, 2009. ACDI/VOCA reported using $345,522 of the advanced funds by September 30, 2009, leaving a remaining balance of $408,513 that was not reported as fully expended until the reporting period ended June 30, 2010, based on our review of documentation. We did not find support for FAD's follow up with the PVO as to the status of the funds in determining if the funds had been obligated by the PVO or needed to be returned to the Federal Government. Additionally, during this 15-month period, ACDI/VOCA did not report any interest earnings in holding the advanced CCC administrative funds. FAS advanced ACDI/VOCA another $653,565 in CCC administrative funds during the reporting period ended December 31, 2010. The PVO reported using $599,447 of the advanced funds by June 30, 2011, leaving a remaining balance of $54,118. ACDI/VOCA expended this entire amount by September 30, 2011, a year after the funds were advanced. In this instance, the PVO reported total interest earnings of $817 by the reporting period ended March 31, 2011, and a total of $1,100 by the reporting period ended June 30, 2011. After we followed up with FAD officials to determine if ACDI/VOCA returned the interest, FAS provided us with a cash advance document approved during December 2011, which showed that interest in the amount of $1,162 had been offset from an additional advance.
- PVO Mercy Corps was advanced $227,872 in CCC administrative funds during the quarterly reporting period ended March 31, 2007, reaching its 180-day time limit for holding the funds by the reporting period ended September 30, 2007. Mercy Corps reported using $37,030 of the advanced funds by September 30, 2007, leaving a balance of $190,842. Mercy Corps reported expending $188,902 of the remaining $190,842 during the reporting period ended September 30, 2011, 4 years following the initial advance. We did not find support for any FAD follow up with Mercy Corps as to the status of the funds in determining if the remaining funds had been obligated by Mercy Corps as of September 2007, or needed to be returned to the Federal Government. Mercy Corps did not remit interest earnings on the CCC advanced funds in the amount of $9,204. A FAD official acknowledged having no record to support that Mercy Corps remitted the interest earned to CCC. FAD officials offered no further explanation or support for any effort it made to obtain the interest earnings due to CCC.

FAS did not have requirements for its staff to follow up with PVOs on delinquent interest earnings due to CCC or required followup actions once the 180-day timeframe expires for outstanding advanced CCC administrative funds. FAS officials provided us with a draft document to address followup action on outstanding interest; however, the procedures did not address its followup actions on remaining advanced CCC administrative funds once the 180-day timeframe expires.

We conclude that FAS can minimize these types of program management deficiencies, which resulted in questioned and unsupported costs totaling $685,646,[29] by establishing additional management controls or strengthening existing ones for monitoring Food for Progress Program agreements. We believe these actions would lead to improving overall Food for Progress Program monitoring accountability and effectiveness.

B. Closeout Process Controls Over Completed Food for Progress Program Agreements Were Inadequate

A key element of FAS oversight and evaluation of PVO agreements is found in the closeout reviews that the MES conducts. These reviews enable FAS to perform a written assessment of an agreement and settle any payment due to or from the PVO. Our March 2006 audit report, which was a followup to our 1999 audit, disclosed that internal control weaknesses continued with FAS' timely review and closure of completed food aid agreements. Although FAS has instituted corrective actions, including development of a manual tracking system, these corrective actions have not been effective to ensure timely agreement closure. FAS implemented a closure checklist and an inventory of agreements for closure as a result of our prior audits, but these actions did not include specific timeframes for closing agreements and were not sufficient to ensure completed agreements were timely reviewed and closed in USDA's accounting systems. We found that a MES official maintained an inventory of agreements awaiting closure; however, the inventory did not contain sufficient information, such as the status of closure or when the agreement was received by MES. In addition, a FAS official stated that the MES director position has been vacant for almost 3 years. This official stated that she made an effort to reorganize MES and FAD staffing and functions, and also asked for more resources in these areas to better serve the program, but it was not approved. By not timely performing closeout reviews, FAS cannot ensure that Federal funds were properly used to accomplish program objectives; timely implement corrective actions on PVO activities, as necessary; accurately report the outcome of Food for Progress Program agreements; and identify and collect improper payments.

The agency is responsible for ensuring that PVOs and other cooperating sponsors comply with their food aid agreements. Federal regulations stipulate the agency's and grant recipients' responsibilities for grant funds.[30] Those regulations provide that recipients shall submit, within 90 calendar days after the date of completion of the award, all financial, performance, and other reports, as required by the terms and conditions of the award.[31] FAS' *Food Assistance Program Implementation Guidebook* provides a general closeout process outline, a closeout checklist, and equipment disposition for MES' independent agreement review and closeout.[32] Also, FAS executed a Memorandum of Understanding (MOU) with the Farm Service Agency (FSA) to provide financial services to FAS, including the accounting of Food for Progress Program agreements and related Treasury reporting requirements.

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[29] The $685,646 aligns with the sum of exhibit A line item amounts $132,352, $520,464, $23,626, and $9,204.
[30] *OMB Circular A-110*, "Uniform Administrative Requirements for Grant and Agreements with Institutions of Higher Education, Hospitals, and other Non-Profit Organizations," as amended September 30, 1999.
[31] 7 CFR 3019.71, dated January 1, 2003.
[32] FAS *Food Assistance Program Implementation Guidebook*, Part 8, Program Closeout, undated.

Closeout reviews are FAS' control to assess a PVO's administration of a particular food aid agreement from start to finish before disbursing the final 15 percent allotment of CCC administrative grant funds to the PVO. The reviews also allow FAS to determine if there are any subsequent disallowances and adjustments, and enable FAS to evaluate a PVO's performance and determine whether it should be awarded new agreements.

1. SOPs Are Needed to Monitor Agreement Closure Process

Our March 2006 audit report disclosed control weaknesses in FAS' agreement closure process, including that FAS did not timely conduct the required final agreement closeout reviews. FAS agreed to develop procedures to timely review and close out agreements, maintain an inventory of agreement closeout requests, and provide these closeout procedures by June 2006. In May 2011 FAS drafted closeout procedures that included action timeframes for the closeout process but had not established these procedures in a formal agency handbook. As of April 2013, we found that FAS had not established effective controls that included timeframes and milestones for completing closure reviews and tracking inventoried agreements throughout the closeout review process.

While FAS had general policies and procedures for its final review and closeout of Food for Progress Program food aid agreements, it had not established a formal system to track inventoried agreements through the closeout process. In October 2011, FAS' closure list contained 30 agreements inventoried by MES for a closure review.

Closure Status	No. Agreements
Active - under MES review	3
Active - completed, awaiting signature	4
Active - referred to Compliance	2
Active - issue sent to PVO for response	1
Waiting[33] - still with analyst	7
Waiting - not received by MES for closeout	13
TOTAL	**30**

For the 30 inventoried agreements listed, MES was actively working to close 10 agreements and awaiting 20 agreements from FAD analysts. Our analysis of the closure database found it did not document when agreements were received and entered into the closure database, track actions taken to close the agreements, or document what additional documentation was missing and being sought from the PVO. FAS officials acknowledged the need for and an interest in developing a more formal system to track an agreement through the closure process. Further, a MES official stated that, while she knew the exact status of each agreement on the list, she recognized the database did not track the steps necessary for agreement closure or the length of

[33] FAS' closure inventory of agreements identified two waiting categories. The first category "still with analyst" is an agreement where the analyst is waiting on the PVO to provide requested information. The second category "not received by MES for closeout" is an agreement where the analyst is waiting for FAD to provide the agreement file.

time that had elapsed since the PVO reported it completed its agreement. Thus, neither we nor MES management could determine how long these agreements had been waiting for a final MES review and closeout without reviewing each closeout file.

2. Delays in Closing Food for Progress Program Agreements Continue

Our 2006 audit report disclosed that FAS was not timely closing agreements and had a backlog of agreements awaiting closure. Despite the fact that FAS cleared a number of old agreements from the prior audit, we found that FAS' procedures still do not establish or define what is a timely closure.

OMB Circular A-110 requires recipients within 90 days after the date of completion of the award to submit financial, performance, and other reports required by the agreement.[34] From February 2008 through August 2011, FAS closed 161 Food for Progress Program agreements. We judgmentally[35] selected six closed agreements and found that none of the agreements were timely closed; in fact, it took FAS from 15 to 112 months to close these agreements after the final LogMon[36] was received, as noted in the following table.

Agreement	Fiscal Year	Final LogMon	Closure Letter	Elapsed Months	Closure Action
1 – Vietnam	2002	August 2007[37]	June 2011	46	Formal Review
2 – Afghanistan	2005	June 2010	January 2012	19	No Review[38]
3 – Bolivia	2003	June 2006	June 2010	48	Formal Review
4 – Azerbaijan	1995	October 1998	February 2008	112	Administrative Closure[39]
5 – Bangladesh	1998	February 2005	March 2008	37	Administrative Closure
6 – Philippines	2004	May 2010	August 2011	15	Formal Review

Our analysis of the six closed agreements found that it took MES 15, 46, and 48 months to close three agreements that received a formal closure review; 37 and 112 months to administratively

[34] 7 CFR 3019.71, as of January 1, 2003.
[35] Agreements were selected in FY 2011 to include agreements with the (1) largest dollar amount of recently closed agreements, (2) largest administrative cash grant FAS provided, (3) date that most agreements were closed by MES, (4) year that most agreements were closed by MES, (5) agreements that OIG had reported issues with the PVO in the prior audits, and (6) a closed agreement file that was available while we were waiting for FAS to pull the other five files selected for review.
[36] The final LogMon report notifies FAS that the PVO has completed its activities and the agreement should be closed.
[37] Agreement was completed in August 2007 the final LogMon report was filed in May 2011, which was a 46-month delay in submission.
[38] This was an intergovernmental agreement. FAS cannot dictate to a foreign government a closure request, so these types of agreements are closed without a review.
[39] For an administrative closure, FAS completes an "Advance Triage for Food Aid Agreement Closeouts" form that was to provide sufficient information on the status of an agreement for MES and OGC to collaboratively determine the appropriate level of effort and resources required to close the agreement and the process by which the agreement will be closed.

close two agreements without a formal review, and 19 months to close one agreement without a formal review.

In our 2006 audit report, we reported that 206 backlogged agreements needed closure. Our current review disclosed that to eliminate the reported backlog of older completed agreements waiting for closeout review, FAS administratively closed backlogged agreements without a formal review. For administratively closed agreements, FAS completed an "Advance Triage for Food Aid Agreement Closeouts" form. This form was provided to the Office of the General Counsel (OGC) to collaboratively determine the appropriate level of effort and resources required to close the agreement and the process by which the agreement would be closed. FAS explained that it could not take any actions against the PVO because the agreements awaiting closure reviews were so old that the statute of limitations of 6 years had elapsed, preventing any collection action should a review disclose a problem. We identified an additional 13 agreements sent to OGC for administrative closure. FAS lost the opportunity to evaluate these PVOs' performance, collect improper payments, and determine whether they should be awarded new agreements.

FAS officials said that the new FAIS will report cumulative agreement results in the semiannual LogMon reports. FAS officials explained that, in the past, although the final LogMon report notified FAS an agreement was ready for closure, it was not itself a cumulative report. Analysts had to receive all of the PVO's LogMon reports before an agreement was ready for closeout. It could take months for a PVO to respond and provide missing documentation. For example, the PVO for one of our selected closed agreements took 45 months to file its final LogMon report for an agreement completed in August 2007. Further, FAS has not implemented monetary penalties[40] when PVOs fail to respond to FAS closure documentation requests necessary to close agreements.

An FAS official stated another problem in closing out agreements involves having to wait on the final indirect cost recovery rate, which has to be negotiated. This official stated that writing a closeout date into the agreement language could remedy the situation.

3. FAS and FSA Need to Improve Communications

In August 2007, FAS executed a MOU with FSA to obtain accounting services for its food aid agreements. As part of this agreement, FAS must notify FSA when food aid agreements are completed, so that the agreements can be closed in USDA's financial accounting system and unspent funds can be deobligated.

We found that the MOU was out-of-date and needs to be updated to clearly define the agreement closure process, controls, and responsibilities for both FAS and FSA. In addition, FAS did not have written procedures in place that provided its staff specific instructions, detailing their responsibilities and required documentation necessary for closing agreements with FSA. Further, FAS relied on its monthly meeting with FSA and does not have procedures in place

[40] 7 CFR Part 3019.62, dated January 1, 2003, provides for agency enforcement actions, including fines, for grant recipients' non-compliance.

requiring its staff to document and confirm that FSA has, in fact, closed agreements in USDA's accounting systems.

For example, MES closed an agreement in June 2011 and provided FSA with a copy of its closure letter. Because FAS' MOU with FSA does not provide specific instructions detailing responsibilities and required documentation necessary for closing agreements, the MES closure letter did not provide specific instructions to FSA for closing the agreement and deobligating remaining funds. In January 2012 (7 months later), we contacted FSA to confirm whether the agreement was closed and the funds were deobligated. We found that FSA had not closed the agreement or deobligated the remaining funds. After our contact with FSA, the agency deobligated $16,828 remaining in USDA's accounting system for the agreement. We noted that FAS' documentation showed that $8,347 should have been deobligated, a discrepancy of $8,481.

FAS officials explained that they have a working relationship with FSA for accounting services, including monthly coordination meetings for FAS food aid programs, where the monthly status of funds for agreements and monthly accounting reports are discussed. Officials conceded they need to clearly spell out each agency's expectations. These officials stated they are in the process of updating the MOU and that this process should be completed in the next 60 days. Also, formal procedures for closeout of agreements are being developed.

We determined that to address the agreement closure control weaknesses detailed above, FAS needs to implement policies and procedures necessary to ensure that completed Food for Progress Program agreements are timely reviewed, tracked through the closure process, closed out accurately and timely in USDA's accounting systems, and assessed monetary penalties when PVOs do not timely respond to closure requests.

Overall, we concluded that FAS needs added management oversight and controls to periodically assess corrective actions taken to address Food for Progress Program weaknesses. This would involve determining if program management controls are working, performing a risk assessment to identify program vulnerabilities and areas where both immediate and long-term program delivery improvements are needed, and clarifying measures for FAS staff in delivering the Food for Progress Program. Without establishing adequate internal program management controls for the Food for Progress Program, FAS cannot reasonably ensure that Federal funds are being used properly to accomplish program objectives.

Recommendation 1

Complete a risk assessment of the Food for Progress Program administrative and oversight activities, in accordance with *OMB Circular A-123*, to (1) identify vulnerable program areas, and develop and implement controls where identified weaknesses exist; (2) periodically assess the effectiveness of corrective actions taken to address program weaknesses; and (3) develop and implement performance measures for FAD and the MES in overseeing and delivering the program.

Agency Response

In its March 11, 2014 response, FAS agreed with this recommendation and stated that a consulting firm was hired during FY 2013 to conduct a risk assessment, in accordance with OMB Circular A-123, of the internal controls and existing policies, procedures, and operating systems used in the management of FAS food assistance programs. The consulting firm assessed FAS' progress to date in implementing corrective actions in response to findings identified in previous audits and studies, including those conducted by OIG and GAO, and in the prior risk assessment conducted in 2009. The consultants also identified weaknesses that still need to be addressed, and they completed the risk assessment in September 2013.

OIG Position

We are unable to reach management decision for this recommendation. To reach management decision, FAS needs to provide an estimated completion date that the agency will fully implement a corrective action plan to address control weaknesses identified by the consultants.

Recommendation 2

Designate a senior management official with sufficient authority to ensure all current and prior recommendations are fully addressed, that includes ensuring adequate controls for timely closure of Food for Progress Program agreements, PVO proper accounting, PVO timely reporting, and PVO agreement monitoring. Evaluate the OCBD staffing to determine if additional personnel for monitoring and closeouts of the Food for Progress Program are needed, and implement a plan to increase or reorganize staff to prioritize associated risks and properly align staff to meet program needs.

Agency Response

FAS agreed with this recommendation and stated that the FAS Deputy Administrator for OCBD is responsible for ensuring that all current and prior recommendations are fully addressed. The Deputy Administrator will initiate corrective actions that include the implementation of adequate controls for timely closure of food assistance agreements, PVO accounting and timely reporting, and FAS monitoring of PVO agreements.

FAS stated it will also engage an independent consultant to perform a human capital assessment of FAD that will include an evaluation of its staffing requirements as well as the other OCBD staff support necessary to strengthen management of the food assistance programs to be finished by September 2014, and any FAS actions taken as a result will be completed by March 31, 2015.

OIG Position

We accept management decision for this recommendation.

Recommendation 3

Recover from TechnoServe (1) the $132,352 in unallowable or unsupported costs improperly charged to the 2007 and 2010 Food for Progress Program agreements, and (2) the $23,626 of unreported interest earned by this PVO.

Agency Response

FAS agreed with this recommendation and stated that any unallowed or unsupported costs, and any unreported interest earned, should be recovered from the TechnoServe. In response to OIG concerns, FAS initiated a financial and compliance review at TechnoServe in June 2013, and if it is determined that TechnoServe improperly charged any costs, or retained any unallowed interest earned on federal funds, FAS will initiate efforts to recover those funds by June 30, 2014.

OIG Position

We are unable to reach management decision for this recommendation. To reach management decision, FAS needs to complete its review of TechnoServe and either provide (1) a copy of the bill for collection for amounts owed to the Government and documentary support that the amounts have been entered as a receivable on the agency's accounting records, or (2) provide sufficient documentary evidence that the costs were allowable or supported.

Recommendation 4

Recover the $9,204 in interest earnings due to the CCC from Mercy Corps, along with any additional amounts earned in conjunction with advanced CCC administrative funds, for its 2006 Food for Progress Program agreement.

Agency Response

FAS agreed with this recommendation and stated that it will review this finding and if it is determined that Mercy Corps retained any unallowed interest earned on Federal funds, or improperly earned and retained any additional amounts connected to the 2006 Food for Progress agreement, FAS will initiate efforts to recover those funds by June 30, 2014.

OIG Position

We are unable to reach management decision for this recommendation. To reach management decision, FAS needs to complete its review of Mercy Corps and either provide (1) a copy of the bill for collection for amounts owed to the Government and documentary support that the amounts have been entered as a receivable on the agency's accounting records, or (2) provide sufficient documentary evidence that the interest earned was allowable.

Recommendation 5

Review TechnoServe's remaining disbursements (use of funds) associated with its 2007 agreement, including the $520,464 of unsupported costs to the 2006 agreement, and recover any additional unallowable or unsupported costs, if applicable.

Agency Response

FAS agreed with this recommendation and stated that it initiated a financial and compliance review at TechnoServe in June 2013. If it is determined that TechnoServe improperly charged any costs, or retained any unallowed interest earned on federal funds, FAS will initiate efforts to recover those funds by June 30, 2014.

OIG Position

We are unable to reach management decision for this recommendation. To reach management decision, FAS needs to complete its review of TechnoServe and either provide (1) a copy of the bill for collection for amounts owed to the Government and documentary support that the amounts have been entered as a receivable on the agency's accounting records, or (2) provide sufficient documentary evidence that the costs were allowable or supported.

Recommendation 6

Evaluate the monitoring process to better identify PVOs for compliance reviews and increase onsite reviews, to include reviewing financial activities of active Food for Progress Program agreements. Ensure during compliance reviews that PVOs have separate bank accounts when required.

Agency Response

FAS agreed with the first part of this recommendation and stated that it already has improved the monitoring of food assistance agreements substantially during the past 3 years by strengthening SOPs and increasing the number of compliance reviews. Nevertheless, FAS will evaluate its monitoring process to better target PVOs for compliance reviews and increase onsite reviews, to include reviewing financial activities of active Food for Progress Program agreements, to determine if there are any further steps to be taken. The results of this evaluation will be available by September 30, 2014.

FAS does not agree with a need to ensure PVOs have separate bank accounts. FAS does not require that PVOs maintain a separate bank account for each individual grant agreement but FAS does require that PVOs have sufficient controls in place to provide segregated accounting for each grant agreement. This is consistent with: (1) the achievement of Management Decision and

OCFO acceptance of Final Action on the issue in OIG's 2007 audit,[41] (2) 7 CFR 3019.22(i)(1) which states that "Federal awarding agencies shall not require separate depository accounts for funds provided to a recipient or establish any eligibility requirements for depositories for funds provided to a recipient," and (3) the imminent provisions of 2 CFR 200, which is expected to be adopted and incorporated by reference into all Departmental and program-specific regulations by December 31, 2014. During its reviews, Compliance ensures that PVOs can properly account for Food for Progress funds within each agreement.

OIG Position

We agree with the actions taken by FAS for the first part of this recommendation. However, we are unable to reach management decision for this recommendation as FAS needs to further address the second part of this recommendation. FAS does not agree with a need to ensure PVOs have separate bank accounts.

Yet, Food for Progress Program agreements are subject to the terms and conditions set forth in 7 CFR Part 1499. The provisions set forth in 7 CFR Part 1499.11(e), provides that the participant shall deposit all sale proceeds and income into a separate, interest-bearing account unless the exceptions in § 3019.22(k) of this title apply, the account is in a country where the laws or customs prohibit the payment of interest, or FAS determines that this requirement would constitute an undue burden. Provisions in § 3019.22(k) of this title provides that recipients should maintain advances of Federal funds in interest bearing accounts, unless (1) the recipient receives less than $120,000 in Federal awards per year, (2) the interest bearing account would not be expected to earn interest in excess of $250 per year on Federal cash balances, or the depository would require an average or minimum balance so high that it would not be feasible within the expected Federal and non-Federal cash resources. These provisions were incorporated into 7 CFR Part 1499.11(e) in 2009, after the "Achievement of Management Decision" and OCFO acceptance of Final Action on this issue in OIG's 2006 audit report. Also, FAS had not determined that our cited PVO had, in fact, met any of these exceptions and justifications were not documented that the PVO was exempt from this requirement.

FAS also disagreed with the need to ensure PVOs have separate bank accounts based, in part, based on 7 CFR Part 3019.22(i)(1) as cited above. This provision states that except for situations described in paragraph (i)(2) of this section, Federal awarding agencies should not require separate depository accounts for funds provided to a recipient or establish any eligibility requirements for depositories for funds provided to a recipient. However, paragraph (i)(2) states that advances of Federal funds shall be deposited and maintained in insured accounts whenever possible. We concluded that since the monetization proceeds are generated via sale(s) of advanced donated commodities to PVOs, paragraph 1 of the cited CFR would not apply.

Therefore, we concluded that FAS' position that PVOs are not required to have separate bank accounts based on its cited CFR reference does not take into account requirements in Parts 1499.11 (e) and 3019.22 (i)(2). Our cited CFR provisions as implemented by FAS through the

[41] OIG's most recent audit report issued addressing PVO Grant Fund Accountability, Report No. 07016-1-At, was dated, March 15, 2006. Contrary to FAS' reference to a 2007 audit, OIG did not perform an audit or issue a report addressing PVO Grant Fund Accountability in 2007.

rule making process provide the necessary controls to ensure the accountability and integrity of funds provided by FAS for food aid agreements and should be enforced. To reach management decision, FAS needs to enforce the requirements of the regulations that require PVOs to maintain separate bank accounts or provide justification as to why the provisions do not apply.

Recommendation 7

Implement formal policies or procedures for FAD staff, including supervisory monitoring to (1) address agency responsibilities concerning delinquent LogMon and financial status reports, including timeframes for followup action with PVOs and review of reports; and (2) require FAD to follow up with PVOs to obtain delinquent interest earnings due to CCC. Incorporate automated alerts and edit checks into FAIS to assist staff monitoring functions, where possible.

Agency Response

FAS agreed with this recommendation and stated that it has begun to implement formal policies and procedures for FAD staff related to monitoring and collection of interest earnings. Since OIG's review FAS has developed policies and procedures for supervisory monitoring of performance reports. All program analysts are required to enter comments into FAIS for all performance reports submitted for agreements in their portfolio. FAD managers are able to easily run a report from FAIS to review whether comments were entered for all performance reports received to ensure that each analyst has reviewed his/her assigned reports. The FAD director and branch chiefs meet with each individual employee's manager to review the reports received and to discuss project progress and agreement issues. Necessary actions identified within the meetings are added to the FAD's tracking system. In February 2013 FAS hired an additional staff member to track and review all semi-annual financial reports. This staff member reviews each report that is received, brings any issues or concerns to the attention of FAD managers and meets individually with each program analyst to discuss the financial reports for the agreements under his/her purview.

FAS is working to draft and implement new SOPs that are in accordance with 7 CFR 3019.22(l) regarding interest earned above $250 by September 30, 2014.

OIG Position

We accept management decision for this recommendation.

Recommendation 8

Implement internal controls that provide formal policies and procedures, including supervisory monitoring and reviews, to track agreements throughout the closeout process to ensure the timely closure of Food for Progress Program agreements. Incorporate automated processes within the FAIS, where possible.

Agency Response

FAS agreed with this recommendation and stated that it recently has updated its SOPs for the closeout process. These SOPs provide clear guidance for handling each step of the closeout process and include deadlines for FAS and PVO staff to ensure that closeouts do not languish in the system. PVOs now are provided a maximum of 30 days in which to respond to FAS closeout letters. Agreements automatically will be closed out for PVOs that fail to respond. This close-out process, along with all other aspects of food assistance grants management, is completed in the new FAIS system. It is possible to track an agreement from the proposal stage through close-out in FAIS, including all steps in the close-out review process. This process, already implemented, will be evaluated, refined, and documented by September 30, 2014.

OIG Position

We accept management decision for this recommendation.

Recommendation 9

Update the MOU between FAS and FSA to detail each agency's responsibilities and the documentation needed for closing FAS food aid agreements in USDA's accounting system, and to implement formal procedures and management review detailing FAS staff responsibilities and documentation needed for closing completed Food for Progress Program agreements in USDA's accounting system.

Agency Response

FAS agreed with this recommendation and stated that it and FSA have been working over the past year to address the MOU between the two agencies. FAS expects to have new documentation of the roles and responsibilities in the relationship by December 31, 2014.

OIG Position

We accept management decision for this recommendation.

Recommendation 10

Incorporate closeout dates into the agreement language and institute monetary penalties when PVOs do not timely respond to closure requests, including enforcement actions detailed in 7 CFR Part 3019.62.

Agency Response

FAS agreed with this recommendation and stated that it will include closeout dates in the standard grant agreement template by March 31, 2014. FAS will continue its current practice of withholding final reimbursements to PVOs until they have submitted all closeout-related documents. FAS also will continue to track PVO performance in responding to requests to close out agreements and consider that performance when evaluating new applications. Regarding enforcement actions, both the 2012 and 2013 Food for Progress solicitations listed as a negative factor that may be considered in the scoring of proposals that "the organization has, on at least two occasions within the past 3 years, failed to respond, or responded more than 5 business days late, to an FAS deadline for documents required during the close-out of an agreement." When appropriate, FAS will continue to make use of the payment withholding remedy made available as an enforcement action in 7 CFR 3019.62.

OIG Position

We accept management decision for this recommendation.

Recommendation 11

Resolve the $8,481 discrepancy in one PVO's agreement funds that was deobligated by FSA, including any necessary accounting adjustments to USDA's accounting system.

Agency Response

FAS agreed with this recommendation and stated that it is in the process of investigating this finding. FAS stated it is working with FSA to determine the reason for the discrepancy identified by OIG and to make any necessary accounting adjustments to USDA's accounting system. These efforts are expected to be completed by September 30, 2014.

OIG Position

We accept management decision for this recommendation.

Scope and Methodology

Our audit focused on whether FAS adequately ensured that PVOs made proper use of funds to efficiently and effectively operate Food for Progress Program food aid agreements to achieve the agency's food aid program objectives. We covered FYs 2009 through 2012, and other periods as deemed necessary. We reviewed FAS' internal controls structure at the national office in Washington, D.C., focusing on active agreement activities and the closeout process. We did not test FAS' application/selection process for Food for Progress Program agreements, as previous OIG audits did not reveal significant issues in this area. Also, we did not provide audit coverage of the McGovern-Dole Food for Education Program, based on GAO's recent audit of the program.[42]

FAS had 77 active Food for Progress Program agreements with PVOs, totaling $734.5 million, as of September 11, 2011, that were awarded between FYs 2003 and 2011. The 77 active Food for Progress Program agreements ranged from $746,360 to $30,474,186 in Federal award funds. As part of our audit, we selected and reviewed a judgmental sample of six active Food for Progress Program agreements, totaling $81.3 million, awarded through FY 2010, based on several factors and considerations to include dollar values, geographic location, number of active years, those awarded to PVOs with multiple Food for Progress Program agreements, and problems identified by FAS during reviews. We conducted an onsite review at one PVO's (TechnoServe) Washington, D.C., home office, in conjunction with two of the six judgmentally selected agreements.[43] Our review of the PVO's agreements did not include in-country visits to test the accuracy and reliability of agreement activities and supporting documentation, as initially planned, due to funding limitations.

Also, FAS closed 97 Food for Progress Program agreements between FYs 2009 and 2011.[44] We selected and reviewed a judgmental sample of six closed Food for Progress Program agreements, totaling $46.9 million.[45] Our selection factors and considerations were based on those agreements with the largest dollar amounts among recently closed agreements, largest CCC administrative funds granted, recent MES closure dates, year of MES closure, prior OIG audit issues with the PVO, and immediate availability of agreement closure file.

To accomplish our audit objectives, we performed the following procedures:

- Reviewed Public Law 110-246 section 3206 (Farm Bill of 2008), *the Food for Progress Act of 1985*, and FAS regulations (7 CFR 1499) governing the Food for Progress Program.
- Reviewed internal FAS policies and procedures used to administer the Food for Progress Program, including the agreement monitoring and agreement closeout processes.

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[42] USDA's Oversight of the McGovern-Dole Food for Education Program Needs Improvement, GAO-11-544, May 19, 2011.
[43] We expanded our review to include one adjustment associated with a final LogMon report from a 2006 Food for Progress Program agreement for this selected PVO.
[44] Closed agreement list provided by FAS as of August 6, 2011.
[45] One of the six agreements reviewed was closed during FY 2011 following the date of the list provided by FAS.

- Reviewed FAS' performance measures established for PVO agreements in the agency's annual Government Performance and Results Act plan.
- Reviewed prior OIG and GAO audits to identify deficiencies disclosed and assess FAS' implementation of corrective actions.
- Reviewed FAS' FYs 2006 through 2011 and 2012 through 2016 strategic plans to identify the agency's goals, objectives, and performance measures as they relate to the Food for Progress Program and administrative responsibilities.
- Reviewed FAS' FYs 2009 through 2010 Performance and Accountability Reports.
- Assessed FAS' documented internal control structure for administering the Food for Progress Program.
- Interviewed FAS national office officials to determine their roles and responsibilities for the Food for Progress Program's administration, including the OCBD; Director and Deputy Director of FAD, OCBD; Special Assistant to the Deputy Administrator of OCBD; Acting Chief of the Compliance Review Branch, Compliance, Security and Emergency Planning Division; and analysts from FAD and MES staffs.
- Obtained a listing of FAS active and closed agreements, generated from FAS' Food Aid Database. Based on our limited testing for completeness, we relied on FAS' provided list of active Food for Progress Program agreements with PVOs. Also, we obtained a FAS list of closed Food for Progress Program agreements; however, additional records were not available for further testing of the accuracy of this list. We did not perform tests of any FAS database or information system used by the agency to determine the overall reliability of the information obtained from them, nor did we rely on these systems to obtain sufficient, appropriate, and relevant evidence to support work performed, as specific audit objectives did not include an evaluation of the effectiveness of the information system or information technology controls. Therefore, we make no representation as to the adequacy of the information systems.
- Reviewed and analyzed the Food for Progress Program active and closed agreement files, including documents such as the Food for Progress Program agreement with FAS, proposals, LogMon reports, quarterly financial reports, *OMB Circular A-123* audit reports, independent evaluations, and closeout evaluations, as applicable.
- Interviewed the CCC FSA official responsible for agreement closure in USDA accounting systems.
- Interviewed officials from TechnoServe to include the Chief Financial Officer, Chief Operating Officer, Director of Budgeting and Planning, and the Internal Audit Director to determine their roles and responsibilities and evaluate their processes for administering their Food for Progress Program agreements with FAS.
- Reviewed TechnoServe Food for Progress Program agreement records to include general ledgers and supporting records, such as payroll documents, invoices, contracts, banking records, and external reviews.
- Discussed the issues we found during our review with FAS national office officials to obtain their positions and responses.

We performed our audit fieldwork from July 2011 through September 2013. We conducted this audit in accordance with *Generally Accepted Government Auditing Standards*. These standards require that we plan and perform the audit to obtain sufficient and appropriate evidence to provide a reasonable basis for our findings and conclusions based on our audit objectives. We believe that the evidence obtained provides a reasonable basis for our findings.

Abbreviations

ACDI/VOCA	Agricultural Cooperative Development International and Volunteers in Overseas Cooperative Assistance
CCC	Commodity Credit corporation
CFR	Code of Federal Regulations
CSEPD	Compliance, Security, and Emergency Planning Division
FAD	Food Assistance Division
FAIS	Food Aid Information System
FAS	Foreign Agricultural Service
FSA	Farm Service Agency
FY	Fiscal Year
GAO	Government Accountability Office
LogMon	Logistics and Monetization
MES	Management and Evaluation Staff
MOU	Memorandum of Understanding
OCBD	Office of Capacity Building and Development
OGC	Office of the General Counsel
OIG	Office of Inspector General
OMB	Office of Management and Budget
PVO	Private Voluntary Organization
SOP	Standard Operating Procedure
USDA	Department of Agriculture

Exhibit A: Summary of Monetary Results

Finding	Recommendation	Description	Amount	Category
1	3	Improper expenses charged to PVO agreements	$132,352	Questioned Costs – Recovery Recommended
1	3	Underreported interest earnings	23,626	Questioned Costs – Recovery Recommended
1	4	Interest earnings on advance funds not remitted to CCC	9,204	Questioned Costs – Recovery Recommended
1	5[46]	Unsupported expenses charged to PVO's 2006 agreement	520,464	Unsupported Costs – Recovery Recommended
1	11	Agreement closeout discrepancy	8,481	Funds to be Put to Better Use – Improper Accounting
TOTAL			**$694,127**	

[46] The $520,464 unsupported costs represents a reduction of the PVO's 2007 agreement expenses, based on its determination that the costs were for expenses associated with a 2006 Food for Progress Program agreement. Even so, the PVO lacked documentation to support these specific expenses.

Exhibit B: Corrective Action Taken by FAS for Prior Audit Recommendations

The table below lists 15 audit recommendations from OIG's March 2006, audit titled, "Private Voluntary Organization Grant Fund Accountability," Report No. 07016-0001-At, and provides information about final corrective actions taken by FAS. We relied on FAS' proposed corrective actions in agreeing to reach management decision for these recommendations. However, our current audit indicated further actions are necessary to effectively address the prior audit's recommendations.

No.	Recommendation	Final Corrective Actions Taken	Weaknesses Identified in Current Audit
1a	Implement management controls for reviews of semiannual reports, onsite reviews, and closeout reviews, as agreed upon in response to OIG's March 1999 report. Establish and implement procedures to conduct detailed evaluations of all open food aid agreements with activities still underway.	FAS provided each of its monitoring analysts with its Monitoring and Evaluation Handbook containing the steps involved in the agreement evaluation process. FAS also provided training to its staff on agreement evaluation procedures in January 2006.	FAS did not have sufficient management controls for monitoring and closing agreements - Finding 1, Sections A.1., A.2., B.1.
1b	Target five to seven PVOs annually for thorough onsite reviews of PVO grant program operations and perform onsite reviews of documents supporting semiannual reports at the U.S. Headquarters of PVOs.	FAS completed four onsite reviews for FY 2006, as agreed upon for FY 2006 and thereafter. FAS also agreed to have its EC/PD meet with its CRS at least once each year to identify specific PVOs for onsite reviews.	FAS' monitoring was not sufficient to detect PVOs' unallowable costs - Finding 1, Sections A.2.
1c	Develop a system to identify problematic PVO agreements and perform regular reviews of these agreements.	FAS developed criteria, dated June 2006, for identifying problematic agreements and for incorporating into its monitoring and evaluation handbook. FAS also prepared its first list of problematic agreements, dated May 2006.	
1d	Develop and implement a plan and timeframes to complete closeout reviews of the backlog of agreements for FYs 1998 through 2001.	FAS developed a plan and completed closeout reviews of FYs 1998 to 2001 agreements by September 2009.	FAS needs SOPs to monitor agreement closure process - Finding 1, Section B.1.
1e	Develop procedures to ensure that agreements for FY 2002 and beyond receive timely closeout reviews.	In June 2006, FAS implemented procedures and timeframes for completing reviews of closeout requests.	FAS needs SOPs to monitor agreement closure process - Finding 1, section B.1.

No.	Recommendation	Final Corrective Actions Taken	Weaknesses Identified in Current Audit
2	Review narrative descriptions of agreement operations, commodity transactions, and all other information submitted in PVOs' semiannual logistics and monetization reports reviewed, and track any problematic issues.	In June 2006, FAS implemented new procedures to fully review financial and monetization and logistics reports; document and track results; and give priority consideration and recommend, for annual review in FY 2007, those agreements on its problematic list.	FAS needs SOPs to monitor agreement closure process – Finding 1, section A.2.
3	Establish a process for meetings between the FAS evaluation and compliance personnel to refer problematic agreements for onsite reviews. Document agreement referrals and review results.	FAS established a process to hold ongoing meetings between its FAD and Compliance, Security, and Emergency Planning Division (CSEPD) to discuss and refer problematic agreements. FAD and CSEPD held its first meeting in July 2006. The problematic agreements list is periodically updated, shared, and discussed among CSEPD, FAD, and MES. OCBD and CSEPD determine specific PVOs or agreements for compliance review.	
4	Develop and implement a separate process to ensure timely closeout reviews of government-to-government agreements, including steps to elevate closeout problems to departmental officials for timely final resolutions.	In June 2006, FAS developed and implemented procedures and timeframes for closeout of government-to-government agreements that included written guidelines for conducting minimal reviews of the agreements.	FAS needs SOPs to monitor agreement closure process – Finding 1, section B.1.
5	In order to protect food aid data from unauthorized access and loss during routine system maintenance and future system modifications, ensure that the performance management and evaluation module and related modules in the new food aid system comply with OMB A-130 and NIST 800-37 certification and accreditation procedures.	FAS took steps to ensure it was compliant with OMB A-130 and NIST 800-37 procedures. In September 2005 FAS had an OMB-300 certification developed for its FAIS which included enhancements to the PVO reporting module, was approved by the USDA Office of the Chief Information Officer, and was forwarded to OMB for review. FAS' actions were supported by a System Accreditation Letter and OMB-300 Certification for FY 2008.	
6	Identify and implement a course of action to ensure thorough and timely reviews of food aid agreement operations.	FAS developed a plan to conduct a preliminary review of reports within four weeks of receipt to identify and quickly note any obvious problems, and give priority consideration to PVO reports of problematic agreements.	FAD did not always timely receive and review PVOs' semiannual reports- Finding 1, section A.1.

No.	Recommendation	Final Corrective Actions Taken	Weaknesses Identified in Current Audit
7	Amend CCC regulations governing eligibility requirements for cooperating sponsors applying for foreign food donation programs to require that cooperating sponsors provide evidence of successful prior in-country grant operations, or documentation to CCC to certify that legal recognition has been obtained from the host country governments where grant programs will be implemented. This documentation must be provided before CCC finalizes a contract to award a food aid grant. Then establish controls to implement the amended regulations.	FAS amended its regulations (7 CFR 1499.3(a)(2) (Food for Progress Program) and 1599.3(a)(2) (McGovern-Dole International Food for Education and Child Nutrition Program) to require PVOs to demonstrate past experience or registration within the country.	
8	Amend CCC regulations to require PVOs and other cooperating sponsors to provide evidence that they have opened separate bank accounts in-country for deposit of monetization proceeds and disbursement of local funds to conduct program operations prior to shipping CCC-donated commodities provided for monetization. Then establish controls to implement the amended regulations.	FAS implemented regulations (7 CFR l499.3(a)(5) (Food for Progress Program) and 1599.3(a)(5) (McGovern-Dole International Food for Education and Child Nutrition Program) and established controls to require PVOs to have an operating financial account in the proposed targeted country, or a satisfactory explanation for not having such an account and a description of how a Food for Progress Agreement would be administered without such an account.	FAS did not have controls to ensure PVOs maintained separate bank accounts – Finding 1, section A.3.
9	Establish agency policies and procedures to direct FAS staff in initiating recovery actions or claims in accordance with CCC regulations against cooperating sponsors at fault in losses of commodities or monetization proceeds.	FAS developed procedures for the establishment and recovery of claims. FAS discussed the procedures with all monitoring staff.	
10	Fully implement the performance-based review system and apply it to Winrock and all other PVOs to determine whether the PVOs' prior performance justifies the award of new food	FAS developed procedures that included providing a PVO with an issue letter(s) to notify it of problems and suggestions for rectifying the problems. FAS will continue to include summaries of a PVO's past	

No.	Recommendation	Final Corrective Actions Taken	Weaknesses Identified in Current Audit
	aid agreements. Document the review process and maintain the documentation for audit review.	performance in its closeout letters. If, after repeated notification efforts, a PVO is neither responsive nor takes corrective action in response to problems raised in the issues letter, FAS will document the situation and consider any new proposal from that PVO in light of the unresolved past issues.	
11	Verify that PCI obtained its proper share of grant funds and accrued interest from the commingled bank account, and accurately reported these funds to FAS.	FAS confirmed its verification that the proper share of proceeds and interest was allocated to PCI's grant from USDA.	FAS did not have controls to ensure PVOs remitted interest earnings on advanced CCC administrative funds - Finding 1, section A.4.
12	Conduct a detailed review of Winrock's monetization program and administrative expenses for the FY 1998 Angola Food for Progress Program agreement, and recover from Winrock any misused or unaccounted funds, potentially totaling as much as $1,402,289.	FAS conducted its review of Winrock and issued its report October 20, 2006. It found that Winrock violated its agreement in limited areas but not in any way that caused financial harm to the CCC.	
13	Refer Winrock's FY 1997 ALFALFA I and FY 1999 ALFALFA II agreements to FAS' Compliance Review Staff for a detailed review to: • obtain a copy of Deloitte Touche Tohmatsu's April 2000 audit report and assess the extent of monetary losses related to fraudulent activities, • vouch claimed project expenses to source documents, • determine the allowability of the $2,651,413 in expenses claimed by Winrock for the ALFALFA II agreement, and • ensure payroll taxes and social security contributions were By the end of FY 2006, CRS will conduct a review of Winrock's FYs 1997 and 1999 agreements.	FAS conducted its review of Winrock's agreements and issued its report October 20, 2006. FAS recovered $92,707 in unallowable expenses based on its review.	

No.	Recommendation	Final Corrective Actions Taken	Weaknesses Identified in Current Audit
	Following this review, FAS will seek recovery of any funds, as appropriate, from Winrock for any claimed expenses determined to be unallowable according to the agreements.		
14	Conduct a detailed review of Winrock's monetization program and administrative expenses under the FY 1999 Food for Progress Program agreement in Ivory Coast and recover from Winrock any misused or unaccounted funds, potentially totaling $773,587.	FAS conducted its review of Winrock's agreements and issued its report October 20, 2006. FAS recovered $92,707 in unallowable expenses based on its review.	
15	Closely monitor all active Winrock agreements, including the FY 2002 agreement in Indonesia, until closure is achieved.	FAS confirmed that reports received from Winrock, including those received under the FY 2002 agreement in Indonesia, were timely reviewed.	

USDA'S
FOREIGN AGRICULTURAL SERVICE
RESPONSE TO AUDIT REPORT

United States Department of Agriculture

Farm and Foreign Agricultural Services

Foreign Agricultural Service

1400 Independence Ave, SW
Stop 1001
Washington, DC 20250-1001

DATE: March 11, 2014

TO: Gil Harden
Assistant Inspector General for Audit
Office of Inspector General

FROM: Phil Karsting /s/
Administrator

SUBJECT: Response to OIG Draft Report -- "Foreign Agricultural Service - Private Voluntary Organization Grant Fund Accountability" (07601-0001-22)

Thank you for providing the Foreign Agricultural Service (FAS) with the Office of Inspector General (OIG) draft report on "Foreign Agricultural Service - Private Voluntary Organization Grant Fund Accountability" (07601-0001-22).

FAS recognizes the need for further improvements in the administration of the Food for Progress program but also would like to emphasize the considerable accomplishments since OIG issued its last audit report on "Foreign Agricultural Service Private Voluntary Organization Grant Fund Accountability" (07016-1-At) in 2007. FAS has made significant changes to its regulations, operating systems, policies and procedures that produced improvements in FAS's oversight of its food assistance agreements. In acknowledgment of these and all completed final actions, the USDA Office of the Chief Financial Officer (OCFO) declared the previous audit closed on June 1, 2011. Below is a brief summary of the changes enacted by FAS since OIG's 2007 audit report.

Published New Program Regulations

In 2009 FAS issued new regulations for the Food for Progress program. In developing the regulations, FAS considered the recommendations from OIG's 2007 audit report and the need to have improved accountability and performance reporting. The new regulations align more directly with the Department's general regulations including the Uniform Administrative Requirements for Grants and Agreements found in 7 C.F.R. part 3019.

Implemented Two New Management Information Systems

FAS implemented two new management information systems designed to strengthen the overall management of food assistance agreements. The Web Based Supply Chain Management System (WBSCM) was developed by the Agricultural Marketing Service in coordination with FAS, the U.S. Agency for International Development (USAID), and other USDA agencies to improve commodity acquisition, distribution and tracking for domestic and international food assistance programs. This system went live in 2010. In fiscal year (FY) 2012, FAS developed and implemented the Food Aid Information

System (FAIS) to improve the management of food assistance agreements. FAIS allows FAS to manage all aspects of the grant agreement from proposal to close-out in one centralized system. FAS started using FAIS in FY 2012.

Increased Human Resources for Grants Management and Compliance Reviews

Prior to 2010 FAS had limited funding to hire additional staff to manage and close-out grant agreements, conduct compliance reviews or take monitoring trips to visit project sites in the field. In 2010 FAS received additional funding to fill six vacant career program analyst positions in the Food Assistance Division (FAD). This addition of staff has allowed FAS to significantly improve agreement monitoring by reducing the total number of active agreements managed by each program analyst while providing additional opportunity for monitoring trips to project sites in the field. In FY 2012 FAS staff completed 16 monitoring trips to project sites for approximately 35 Food for Progress agreements. In FY 2013 FAS staff completed 20 monitoring trips to project sites for approximately 37 Food for Progress agreements.

In addition, FAS has been able to increase the number of staff devoted to agreement close-out. The increase in staffing allowed FAS to close out a backlog of 433 agreements that remained open at OIG's last audit in 2007. FAS also has developed standard operating procedures for agreement close-out.

The FAS Compliance, Security and Emergency Planning Division (Compliance) has increased the number of financial and compliance reviews of FAS' food assistance grants. Between FY 2008 and FY 2013, a total of 44 compliance reviews were conducted covering 48 agreements.   Fifteen compliance reviews are planned for FY 2014. Agreements are prioritized for review based on findings from semi-annual financial and performance reports, mid-term and final evaluation reports or other concerns identified by FAD managers. Each review takes an average of four weeks, two of which are spent on-site at either the PVO headquarters or field-office.

The additional resources that FAS has devoted to monitoring and evaluation, compliance and agreement close-out has enabled the agency to recover approximately $2.3 million in misspent funds, unused monetization sales proceeds and other financial claims between 2009 and 2013. In addition, between 2012 and 2013 alone, FAS de-obligated a total of $47.3 million in unspent commodity, transportation and administrative funds from closed agreements.

Conducted Two Independent Risk Assessments

Since 2007 FAS has completed two independent risk assessments of the food assistance programs. Both evaluated the programs using criteria and requirements found in the Office of Management and Budget's (OMB) Circular A-123, and provided best practice guidance and detailed recommendations for improvement and corrective actions where needed. The first risk assessment was completed by PricewaterhouseCoopers (PwC) in 2009 and the second risk assessment was completed by MorganFranklin in 2013 (see the FAS response under Recommendation 1 for further details). FAS is taking corrective actions in response to the MorganFranklin recommendations.

FAS takes a serious view of the recommendations provided from all sources and continues working to ensure that the overall objectives of FAS food assistance programs are carried out in the best interest of all stakeholders.

The eleven OIG recommendations and FAS's responses are provided as follows:

Recommendation 1:

Complete a risk assessment of the Food for Progress Program administrative and oversight activities, in accordance with OMB Circular A-123, to (1) identify vulnerable program areas, and develop and implement controls where identified weaknesses exist; (2) periodically assess the effectiveness of corrective actions taken to address program weaknesses; and (3) develop and implement supervisory measures for FAD and the FAS Office of Capacity Building and Development (OCBD) Management and Evaluation Staff (MES) performance in overseeing and delivering the program.

FAS Response:

FAS agrees with this recommendation. During FY 2013 FAS engaged MorganFranklin Consulting to conduct a risk assessment, in accordance with OMB Circular A-123, of the internal controls and existing policies, procedures, and operating systems used in the management of FAS food assistance programs. MorganFranklin assessed FAS's progress to date in implementing corrective actions in response to findings identified in previous audits and studies, including those conducted by OIG and the Government Accountability Office (GAO), and in the prior risk assessment conducted by PwC in 2009. MorganFranklin also identified weaknesses that still need to be addressed. MorganFranklin completed the risk assessment in September 2013.

Recommendation 2:

Designate a senior management official with sufficient authority to ensure all current and prior recommendations are fully addressed, that includes ensuring adequate controls for timely closure of Food for Progress Program agreements, Private Voluntary Organization (PVO) proper accounting, PVO timely reporting, and PVO agreement monitoring. Evaluate FAS OCBD staffing to determine if additional personnel for monitoring and closeouts of the Food for Progress Program is needed, and implement a plan to increase or reorganize staff to prioritize associated risks and properly align staff to meet program needs.

FAS Response:

FAS agrees with this recommendation. The FAS Deputy Administrator for OCBD is responsible for ensuring that all current and prior recommendations are fully addressed. The Deputy Administrator will initiate corrective actions that include the implementation of adequate controls for timely closure of food assistance agreements, PVO accounting and timely reporting, and FAS monitoring of PVO agreements.

FAS will engage an independent consultant to perform a human capital assessment of FAD that will include an evaluation of Division staffing requirements as well as the other OCBD staff support necessary to strengthen management of the food assistance programs. FAS has developed the scope of work for the contract and expects that the assessment will begin this Spring, finish by September, and any FAS actions taken as a result will be completed by March 31, 2015.

Recommendation 3:

Recover from TechnoServe (1) the $132,352 in unallowable or unsupported costs improperly charged to the 2007 and 2010 Food for Progress Program agreements, and (2) the $23,626 of unreported interest earned by this PVO.

FAS Response:

FAS agrees that any unallowed or unsupported costs, and any unreported interest earned, should be recovered from the TechnoServe. In response to OIG concerns FAS initiated a financial and compliance review at TechnoServe in June 2013. If it is determined that TechnoServe improperly charged any costs, or retained any unallowed interest earned on federal funds, FAS will initiate efforts to recover those funds by June 30, 2014.

FAS requires that all PVO partners in food assistance agreements comply with OMB Circular A-133 requirements regarding the subjection of federal funds to annual audits and the provision to FAS of the resulting audit reports. Throughout the period in question TechnoServe submitted annual audit reports in compliance with OMB Circular A-133, and there were no findings related to USDA grant agreements in those reports.

Recommendation 4:

Recover the $9,204 in interest earnings due to the CCC from Mercy Corps, along with any additional amounts earned in conjunction with advanced CCC administrative funds, for its 2006 Food for Progress Program agreement.

FAS Response:

FAS agrees that any interest earned, and any additional amounts earned, by Mercy Corps on administrative funds advanced by the Commodity Credit Corporation (CCC) should be recovered from the Mercy Corps. FAS will review this finding. If it is determined that Mercy Corps retained any unallowed interest earned on federal funds, or improperly earned and retained any additional amounts connected to the 2006 Food for Progress agreement, FAS will initiate efforts to recover those funds by June 30, 2014.

Recommendation 5:

Review TechnoServe's remaining disbursements (use of funds) associated with its 2007 agreement, including the $520,464 of unsupported costs to the 2006 agreement, and recover any additional unallowable or unsupported costs, if applicable.

FAS Response:

FAS agrees that any unallowed or unsupported costs should be recovered from TechnoServe. In response to OIG concerns FAS initiated a financial and compliance review at TechnoServe in June 2013. If it is determined that TechnoServe improperly charged any costs, or retained any unallowed interest earned on federal funds, FAS will initiate efforts to recover those funds by June 30, 2014.

Recommendation 6:

Evaluate the monitoring process to better target PVOs for compliance reviews and increase onsite reviews, to include reviewing financial activities of active Food for Progress Program agreements. Ensure during compliance reviews that PVOs have separate bank accounts when required.

FAS Response:

FAS agrees with the need to evaluate the monitoring process to better target PVOs for compliance reviews and increase onsite reviews to include reviewing financial activities of active Food for Progress agreements. In fact, FAS already has improved the monitoring of food assistance agreements substantially during the past three years by strengthening standard operating procedures and increasing the number of compliance reviews.

FAS has developed formal standard operating procedures for selecting grant agreements that receive on-site monitoring visits by program analysts in FAD. Agreements are prioritized for site visits based on delinquent reporting; performance reports, semi-annual financial reports, and mid-term evaluation reports; or other concerns identified by program analysts and FAD managers. New agreements are frequently prioritized for site visits as are agreements that have not been reviewed at the field-level within the past three years.

FAS also maintains a current listing of agreements that have performance issues, or suspected performance issues, that may require enhanced monitoring. FAD, MES and Compliance meet at least quarterly to review each agreement on the list, and these meetings feed into the decision process of those agreements selected for onsite review by Compliance.

In recent years the number of Compliance reviews of food assistance agreements has greatly increased. Between FY2008 and FY2013 Compliance conducted a total of 44 food assistance reviews, with 14 (35 percent) in FY2013 alone. In FY2014, 15 Compliance reviews are planned.

Nevertheless, FAS will evaluate its monitoring process to better target PVOs for compliance reviews and increase onsite reviews, to include reviewing financial activities of active Food for Progress Program agreements, to determine if there are any further steps to be taken. The results of this evaluation will be available by September 30, 2014.

FAS does not agree with a need to ensure PVOs have separate bank accounts. FAS does not require that PVOs maintain a separate bank account for each individual grant agreement but FAS does require that PVOs have sufficient controls in place to provide segregated accounting for each grant agreement. This is consistent with: (1) the achievement of Management Decision and OCFO acceptance of Final Action on the issue in OIG's 2007 audit, (2) 7 C.F.R. 3019.22(i)(1) which states that "Federal awarding agencies shall not require separate depository accounts for funds provided to a recipient or establish any eligibility requirements for depositories for funds provided to a recipient," and (3) the imminent provisions of 2 C.F.R. 200, which is expected to be adopted and incorporated by reference into all Departmental and program-specific regulations by December 31, 2014. During their reviews Compliance ensures that PVOs can properly account for Food for Progress funds within each agreement.

Recommendation 7:

Implement formal policies or procedures for FAD staff, including supervisory monitoring to (1) address agency responsibilities concerning delinquent LogMon and financial status reports, including timeframes for followup action with PVOs and review of reports; (2) and require FAD to follow up with PVOs to obtain delinquent interest earnings due to [CCC]. Incorporate automated alerts and edit checks into FAIS to assist staff monitoring functions, where possible.

FAS Response:

FAS agrees with this recommendation and has begun to implement formal policies and procedures for FAD staff related to monitoring and collection of interest earnings. Since OIG's review FAS has developed policies and procedures for supervisory monitoring of performance reports. All program analysts are required to enter comments into FAIS for all performance reports submitted for agreements in their portfolio. FAD managers are able to easily run a report from FAIS to review whether comments were entered for all performance reports received to ensure that each analyst has reviewed their assigned reports. The FAD director and branch chiefs meet with each individual employee's manager to review the reports received and to discuss project progress and agreement issues. Necessary actions identified within the meetings are added to the FAD's tracking system.

In February 2013 FAS hired an additional staff member to track and review all semi-annual financial reports. This staff member reviews each report that is received, brings any issues or concerns to the attention of FAD managers and meets individually with each program analyst to discuss the financial reports for the agreements under their purview.

FAS is working to draft and implement new standard operating procedures that are in accordance with 7 C.F.R. 3019.22(l) regarding interest earned above $250 by September 30, 2014.

Recommendation 8:

Implement internal controls that provide formal policies and procedures, including supervisory monitoring and reviews, to track agreements throughout the closeout process to ensure the timely closure of Food for Progress Program agreements. Incorporate automated processes within the Food Aid Information System (FAIS), where possible.

FAS Response:

FAS agrees with this recommendation. FAS has taken aggressive measures to close out inactive agreements since OIG released its previous audit report in 2007. Between FY 2008 and FY 2013 FAS closed a total of 433 agreements, including 238 Food for Progress agreements. At the end of January 2014 closeout reviews for an additional 55 agreements were in progress. FAS recently has updated its standard operating procedures for the closeout process. These standard operating procedures provide clear guidance for handling each step of the closeout process and include deadlines for FAS and PVO staff to ensure that closeouts do not languish in the system. PVOs now are provided a maximum of 30 days in which to respond to FAS closeout letters. Agreements automatically will be closed out for PVOs that fail to respond. This close-out process, along with all other aspects of food assistance grants management, is completed in the new FAIS system. It is possible to track an agreement from the proposal stage through close-out in FAIS, including all steps in the close-out review process. This process, already implemented, will be evaluated, refined, and documented by September 30, 2014.

Recommendation 9:

Update the MOU between FAS and the FSA to detail each agency's responsibilities and the documentation needed for closing FAS food aid agreements in USDA's accounting system, and implementing formal procedures and management review detailing FAS staff responsibilities and documentation needed for closing completed Food for Progress Program agreements in USDA's accounting system.

FAS Response:

FAS agrees with this recommendation. FAS and FSA have been working over the past year to address the MOU between the two agencies. FAS expects to have new documentation of the roles and responsibilities in the relationship by December 31, 2014.

Recommendation 10:

Incorporate closeout dates into the agreement language and institute monetary penalties when PVOs do not timely respond to closure requests, including enforcement actions detailed in 7 C.F.R. part 3019.62.

FAS Response:

FAS will include closeout dates in the standard grant agreement template by March 31, 2014. FAS will continue its current practice of withholding final reimbursements to PVOs until they have submitted all closeout-related documents. FAS also will continue to track PVO performance in responding to requests to close out agreements and consider that performance when evaluating new applications.

Regarding enforcement actions, both the 2012 and 2013 Food for Progress solicitations listed as a negative factor that may be considered in the scoring of proposals that "The organization has, on at least two occasions within the past 3 years, failed to respond, or responded more than 5 business days late, to an FAS deadline for documents required during the close-out of an agreement." When appropriate, FAS will continue to make use of the payment withholding remedy made available as an enforcement action in 7 C.F.R. 3019.62.

Recommendation 11:

Resolve the $8,481 discrepancy of one PVO's agreement funds that was deobligated by FSA, including any necessary accounting adjustments to USDA's accounting system.

FAS Response:

FAS is in the process of investigating this finding. This concerns a 2002 agreement with Counterpart International for a Food for Progress program in Vietnam. FAS is working with FSA to determine the reason for the discrepancy identified by OIG and to make any necessary accounting adjustments to USDA's accounting system. These efforts are expected to be completed by September 30, 2014.

If you have any questions or concerns regarding this memorandum, or if you need additional information, please contact James Gartner, FAS's Audit Liaison, on (202) 720-0517.

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