



OFFICE OF INSPECTOR GENERAL

AUDIT OF USAID/PERU'S HEALTH POLICY AND HEALTHY COMMUNITIES AND MUNICIPALITIES II ACTIVITIES

AUDIT REPORT NO. 1-527-14-010-P
May 15, 2014

SAN SALVADOR, EL SALVADOR



Office of Inspector General

May 15, 2014

MEMORANDUM

TO: USAID/Peru Mission Director, Deborah Kennedy-Iraheta

FROM: Regional Inspector General/San Salvador, Jon Chasson /s/

SUBJECT: Audit of USAID/Peru's Health Policy and Healthy Communities and Municipalities II Activities (Report No. 1-527-14-010-P)

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

This report contains seven recommendations to help USAID/Peru improve its activities. Based on your written comments in response to the draft report, a management decision has been reached on all seven. Please provide the Audit Performance and Compliance Division in the USAID Office of the Chief Financial Officer with the necessary documentation to achieve final action.

Thank you and your staff for the cooperation and assistance extended to us during this review.

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Abbreviations

The following abbreviations appear in this report:

ADS	Automated Directives System
AOR	agreement officer’s representative
FY	fiscal year
HCM II	Healthy Communities and Municipalities II
HP	Health Policy
MSH	Management Sciences for Health
M&E	monitoring and evaluation
PMP	performance management plan

SUMMARY OF RESULTS

The Peruvian health sector has been undergoing a process of decentralization and reform since 2002. The government promotes regional planning in development and increasingly provides financial resources directly to local governments, thereby encouraging them to tailor health care activities to their communities. Government health entities at the national, regional, and local levels strive to meet the challenges and opportunities created by a changing health sector, while focusing on equal access for all.

However, even though health indicators—like the fertility rate and infant and maternal death rates—have steadily improved, troubling differences between rural and urban populations persist. These differences are exacerbated by poverty and lack of education, particularly in rural areas.

USAID/Peru awarded Abt Associates Inc. a cost-plus-fixed-fee completion contract worth about \$19.6 million to implement the Health Policy (HP) activity from January 20, 2010, through December 14, 2014. However, after the Agency stopped funding health projects in Peru at the end of fiscal year (FY) 2012, HP's value was reduced to \$12.8 million. The mission also awarded Management Sciences for Health (MSH) an associate cooperative agreement to implement the Healthy Communities and Municipalities II (HCM II) activity from December 3, 2010, through December 2, 2015. The estimated cost is \$11.9 million.

HP's purpose is to provide technical assistance to improve the health sector's performance since decentralization by strengthening policies related to healthcare delivery capacities at all levels of government. By doing so, the activity should strengthen Peru's health system, and this can lead to an increase in the quality and coverage of health services for all Peruvians, particularly those who are poor and who live in rural areas.

The purpose of HCM II is to improve maternal/child and family planning/reproductive health in the regions of Ayacucho, San Martin, and Ucayali (referred to as the geographical intervention areas) through promoting healthy practices that have an impact on public health. The activity seeks to implement the HCM II model, a methodology that uses community institutions like local boards, to disseminate information about healthy behaviors—such as washing hands, disposing waste, and boiling water—and to monitor activities that promote good health—such as prenatal and infant care.

Both activities were designed and planned before February 2012 when USAID/Peru was informed that funding for bilateral health projects would terminate at the end of the fiscal year. According to mission officials, in light of positive economic and health indicators and budget reductions, USAID/Washington prioritized development needs in Africa and elsewhere over those in Peru.

Mission officials said they sought ways to end the health activities smoothly. In the case of HP, the activity was reduced in budget and scope; in the case of HCM II, the Health Office sought funding from the Alternative Development Program.¹ The mission developed a plan to use

¹ This USAID program was designed to help communities switch from growing illegal crops, like coca, to legal ones like cacao.

existing resources and relationships to make sure the health interventions and achievements could be sustained.

The Regional Inspector General/San Salvador (RIG) conducted this audit as part of its FY 2014 audit plan to determine whether USAID/Peru is achieving its main goals of contributing to the improvement of the quality and coverage of health services for Peruvians and helping improve maternal/child and family planning/reproductive health in intervention areas.

For HP, the audit found that the activity is making adequate progress toward four of five planned outcomes.

- Following the guidelines of the technical assistance provided, the national, regional, and local authorities coordinate their work to develop, enforce, and effectively implement regulations and policies under a decentralized health plan. Currently, the Peruvian Congress and ministries of finance and health are reviewing the health workforce allocation proposal that HP helped the Peruvian National Association of Local Governments draft. Additionally, the San Martín Government enacted an ordinance outlining how decentralization would work.
- On September 11, 2013, the Peruvian legislature approved a compensation proposal for health workers based on the technical assistance HP provided to the Ministry of Health.
- National, regional, and local authorities generate and use information that is accurate and timely, which allows them to manage their health systems more efficiently. The medical records management software called Sis-GalenHos-Plus, developed with financial support from HP, is being implemented in all primary healthcare facilities managed by the Ministry of Health and has been made available to all facilities in the Peruvian public health sector. This software allows healthcare providers to improve how they manage medical records and patient history, and expedites patient visits to health facilities.
- The public health sector is improving how it manages its employees. San Martín has completed approval of job descriptions and requirements for health workers and has implemented a management performance assessment tool.

However, progress toward the fifth outcome—ensuring that the Peruvian health system properly procures and manages the needed medical products, vaccines, technologies, and supplies—has been limited. Although activities for this outcome are scheduled to start in January 2014, auditors confirmed that nobody from Abt was working on this as of November 2013.

For HCM II, the audit found that the activity made adequate progress toward refining the tools, materials, and interventions comprising the HCM II model in selected geographic areas. It also made some progress in getting government and private sector entities to adopt the model.

However, the audit found that USAID/Peru could not determine whether the activities' results are fully supporting their respective goals because the mission has not updated its performance management plan (PMP) and monitoring and evaluation (M&E) plan for either activity (page 4).

In addition, activities to support sustainability were not fully implemented. The HCM II agreement required MSH to identify one or more local organizations that could provide technical

assistance after the activity ends. Yet this has not happened, which could hamper efforts to become sustainable (page 7).

The audit team also found that:

- Performance indicators did not measure strengthening of public health institutions at the national level (page 5). The indicators for HP measured how the activities were progressing only at the local and regional levels.
- Progress reports did not provide attribution for results (page 6). Therefore, it was hard to discern what could be attributed specifically to USAID-funded activities.
- USAID/Peru did not modify the HCM II agreement to include a change in the area of emphasis (page 7). This is a significant change that should be reflected in an update to the budget of the agreement and a revised description.

To further improve activity management, we recommend that USAID/Peru:

1. Implement a PMP for its second development objective: management and quality of public services improved in the Amazon Basin (page 5).
2. Work with MSH to implement a revised M&E plan (page 5).
3. Work with Abt to implement a revised M&E plan (page 5).
4. Implement a performance indicator that measures whether HP is making progress in strengthening public health institutions at the national level (page 6).
5. Require Abt to identify in its progress reports HP's specific contribution to Peruvian strategic health indicators (page 6).
6. Implement a sustainability strategy to make sure the HCM II methodology continues after the activity ends (page 7).
7. Have its Regional Office of Acquisition and Assistance modify the agreement with MSH, including the budget support table for the three components and the activity description, to clarify the shift in emphasis (page 8).

Detailed findings appear in the following section. The scope and methodology are described in Appendix I. Management comments are included in their entirety in Appendix II, and our evaluation of management comments is on page 9.

AUDIT FINDINGS

Mission Did Not Approve or Update Plans

According to USAID's Automated Directives System (ADS), Chapter 200.3.5.5, missions should track whether projects achieve intended results by (1) planning how they will systematically monitor and evaluate progress, (2) regularly monitoring the achievements of programs and projects, and (3) collecting and analyzing performance information to track progress toward planned outcomes. ADS 203.3.4, "Performance Management Plans," requires USAID teams to develop a PMP, and ADS 200.6 defines a PMP as a tool "to plan and manage the process of monitoring, evaluating, and reporting progress toward achieving the various levels of the approved results framework."

USAID/Peru reinforces these requirements through its mission order on M&E.² The order adds that the PMP for each development objective should be updated at least annually and specifies that teams should develop a PMP within 4 months after USAID/Washington approves of its country development cooperation strategy (CDCS).

According to ADS 203.3.5, implementers are expected to submit an M&E plan within the first 3 months and before any major work begins. Moreover, the contracts with MSH and Abt require them to develop formal M&E plans to help make sure activities meet their stated objectives.

PMP. Although Peru's CDCS was approved in July 2012, the mission has not completed its PMP. Mission officials said this happened because they were still deciding how to address the second development objective: management and quality of public services improved in the Amazon Basin; therefore the officials had not finished the corresponding PMP.

HCM II M&E Plan. MSH developed an M&E plan in April 2011. However, it is outdated because HCM II has undergone significant changes since April 2011, which resulted in several indicators being dropped, added, or reworded. MSH has been using an Excel spreadsheet to track indicators informally. MSH employees said they did not update the M&E plan because the mission did not ask them to.

Due to a declining health portfolio, two staff positions, including the AOR for this agreement, from USAID/Peru's Health and Education Office were eliminated by September 2013. So the mission assigned a new agreement officer's representative (AOR) to manage this agreement on September 6, 2013—2 months before the audit team arrived. This contributed to overlooking the need to update the M&E plan sooner. In addition, the agreement stated that indicators and targets may periodically be adjusted, without specifying how frequently this should happen.

² According to the order, an M&E plan and a PMP have the same information. The difference is that M&E plans are for USAID-funded activities, whereas PMPs are for USAID technical teams (such as the Office of Health and Education) that manage many activities.

HP M&E Plan. Abt developed an M&E plan in October 2011; however, it has not been updated even though HP’s scope and budget have been substantially reduced. Abt was in the process of working with the contracting officer’s representative to update it.

Based on a review of that plan, the audit team concluded that none or few of the 17 indicators were useful for managing HP. Most measured outcomes or impact, or provided context. While they were useful, they would not necessarily inform an outsider about HP’s progress. For example, there were indicators to measure the country’s malnutrition rate, its health expenditure per capita, and the percentage of drugs available in health facilities.

USAID officials explained that outcome indicators are more useful in this particular contract because it was designed to improve health care policy, planning, and strategy. Therefore, Abt officials focused more on outcome indicators—and underestimated the importance of output indicators that could better measure the activity’s direct contributions, such as number of people trained, beneficiaries reached, or number of manuals developed or distributed.

Because the PMP and M&E plan are important management tools that should be updated regularly, the absence of current ones increases the likelihood that USAID/Peru will not provide the results needed to inform all stakeholders about the activities’ progress improve the activities’ effectiveness.

***Recommendation 1.** We recommend that USAID/Peru implement a performance management plan for its second development objective.*

***Recommendation 2.** We recommend that USAID/Peru work with Management Sciences for Health to implement a revised monitoring and evaluation plan.*

***Recommendation 3.** We recommend that USAID/Peru work with Abt Associates Inc. to implement a revised monitoring and evaluation plan.*

Indicators Did Not Measure Strengthening Public Health Institutions at National Level

According to ADS 203.3.2, performance indicators are “the basis for observing progress and measuring actual results compared to expected results.” USAID’s TIPS No. 6, “Performance Monitoring and Evaluation,” states, “Performance indicators are measures that describe how well a program is achieving its objectives, and indicators tell specifically what to measure to determine whether the objective has been achieved.” Furthermore, the framework described in ADS 200.3.5.4 states, “All outputs that are necessary and together sufficient to achieve the purpose should be identified.” According to the HP award, “National, regional and local level public entities will be strengthened to respond to challenges and opportunities created by a changing health sector.”

USAID/Peru developed performance indicators to measure HP’s progress at the regional and district levels; however, it did not establish indicators to measure how and whether the activity helps promote these results at the national level.

Mission officials said their aim is to strengthen processes and capacities in San Martin and Lima so the Peruvian Government can then apply them throughout the country. But we did not find any indicators that provided information on how this would be achieved.

The indicator the mission used to measure progress in strengthening health institutions is the number of health employees trained in intervention areas. Although this is a good measure of progress in those areas, it does not provide information on the progress made nationally.

Mission officials said the instruments used to replicate the results from the regional to the national level have not been prepared because of HP's budget reductions. However, they said the instruments will be included in the documents to be prepared for the upcoming report of all health projects USAID/Peru has done.

Without input and output indicators that measure progress in strengthening public health institutions at the national level, USAID/Peru is missing valuable information for making decisions about HP and for verifying that the overall objective is being achieved. Therefore, we make the following recommendation.

***Recommendation 4.** We recommend that USAID/Peru implement a performance indicator that measures whether the Health Policy activity is making progress in strengthening public health institutions at the national level.*

Progress Reports Did Not Attribute Results

According to ADS 203.3.2.2.d, missions should clearly communicate “when results are achieved jointly with the host country or other development partners.” The agreement between USAID/Peru and Abt states that the purpose of progress reports is to describe results in relation to the approved work plan. The reports should contain information such as the activity's progress since the last report, a results reporting table, and activities planned for the next quarter.

Abt's progress reports were well written and detailed. However, they did not state the specific results that could reasonably be attributed to the USAID-funded activities. For example, the reports mention achievements in reducing child malnutrition and increasing health insurance coverage—achievements that require vast resources and the participation of many donors. However, the reports implied that these achievements are completely attributable to HP.

This observation also applies to indicators that were being considered in the upcoming M&E plan. As noted earlier in the report, most indicators measured the achievements of the Peruvian Government and other organizations rather than the achievements of HP alone.

To avoid giving that impression, we make the following recommendation.

***Recommendation 5.** We recommend that USAID/Peru require Abt Associates Inc. to identify in its progress reports the Health Policy activity's specific contribution to the Peruvian strategic health indicators.*

Healthy Community Activity's Sustainability Was Not Addressed Adequately

ADS 200.6 defines sustainability as “the continuation of benefits after major assistance has been completed.” Moreover, according to *USAID 2011-2015 Policy Framework*, development programs need to be delivered in a more sustainable manner than ever before because of the constrained fiscal environment. The framework states, “Sustainability is about building skills, knowledge, institutions, and incentives that can make development processes self-sustaining.”

The goal of Component 3 of the cooperative agreement between USAID/Peru and MSH is to help local institutions provide all of the necessary technical assistance and implement the HCM II approach to local governments or to any other public or private institution. The agreement required MSH to “select within the first quarter after award one or more local organizations for approval by USAID/Peru” to provide this continued assistance.

Despite these requirements, aspects of the activity may not be sustainable. Although the mission provided evidence of the transfer of the HCM II methodology to many local institutions, there is no formal commitment to sustainability of the activity and its methodology after it ends in 2015. No agreements were in place to make sure somebody would provide technical assistance based on the HCM II methodology because MSH had not selected a local organization to do so.

According to USAID/Peru, the approach of seeking commitments from local institutions to continue the dissemination of the methodology was on hold because the budget for the Office of Health and Education has been reduced significantly since HCM II began.

Without a documented sustainability plan, the successful HCM methodology may be implemented poorly in the future or completely forgotten. The methodology and other positive aspects of the activity won't be replicated necessarily in communities throughout Peru. Therefore, we make the following recommendation.

***Recommendation 6.** We recommend that USAID/Peru implement a sustainability strategy to make sure the Healthy Communities and Municipalities II methodology continues after the activity ends.*

Mission Did Not Modify Agreement to Include Change in Emphasis

ADS 202.3.6.3 states that USAID missions must adjust tactics when conditions warrant. This may include modifying or changing existing programs or activities. According to ADS 303.3.13, the elements of a mutually binding agreement include a mutual understanding and an agreement on the terms of the award. Furthermore, it states that if there are any substantive changes to the program description or its budget, or if terms that were not addressed during negotiations to the agreement are added, the AOR must obtain an agreement to the changes or additional terms before funds can be obligated. ADS 303.3.17 states that when a modification to the award is necessary, the AOR should prepare internal USAID documentation that supports it.

However, although the activity's scope and budget changed significantly after USAID/Peru announced the end of its bilateral health program in February 2012, the HCM II agreement was

not modified accordingly. The emphasis of the activity changed from promoting healthy habits to organizing activities during which health topics were discussed, with an emphasis on promoting diverse leadership (including women) and community cohesion. This happened because 70 percent of HCM II's funding was now from the Alternative Development Program, and those kinds of activities were more in line with it.

Moreover, HCM II has less of an emphasis on transfer and sustainability efforts (Components 2 and 3), and focused just in San Martin in accordance with the mission's health exit plan. These major variations in scope and budget should be reflected in an award modification as an update to the budget table of the agreement and a revised activity description.

Mission officials said they did not modify the award because the annual work plan was modified and the mission considered this was sufficient. They said the changes were only an adjustment in emphasis and not a change in the description of the programmed activities.

However, given the significant nature of the changes, an award modification per the ADS guidance seems warranted. Having an agreement with an outdated budget and activity description may lead to improper implementation of the activity, because the award is the legally binding instrument for the activities to be performed. It may also lead to disagreements about whether the activity met its goals. To address this concern, this audit makes the following recommendation.

Recommendation 7. *We recommend that USAID/Peru have its Regional Office of Acquisition and Assistance modify the agreement with Management Sciences for Health, including the budget support table for the three components and the activity description, to clarify the shift in emphasis.*

EVALUATION OF MANAGEMENT COMMENTS

USAID/Peru agreed with all seven recommendations. Based on comments from the mission, management decisions have been reached on all seven. Our detailed evaluation of management comments follows.

Recommendation 1. USAID/Peru agreed with the recommendation and is in the process of finalizing the project appraisal document for its second development objective, which will include the development objective PMP. These approved documents will fold into the mission-wide PMP. The target date for completion of these actions is September 15, 2014. Based on the mission's response and planned actions, a management decision has been reached on this recommendation.

Recommendation 2. USAID/Peru agreed with the recommendation and has provided guidance to MSH on USAID policy for revising an M&E plan for HCM II. The revised plan will include fewer indicators and ones that focus on performance management. The target date for completion of these actions is September 15, 2014. Based on the mission's response and planned actions, a management decision has been reached on this recommendation.

Recommendation 3. USAID/Peru agreed with the recommendation and is in the process of updating the M&E plan for this activity. The mission is reviewing a revised set of indicators for HP, and it plans to reduce the number and focus on those that are useful for performance management and "assess the higher level impacts of the activity." The target date for completing these actions is September 15, 2014. Based on the mission's response and planned actions, a management decision has been reached on this recommendation.

Recommendation 4. USAID/Peru agreed with the recommendation to measure the progress of activities HP carried out at the national level, as specified in the contract. While updating HP's M&E plan, the mission expects to identify all necessary indicators. The mission plans to revise and approve the plan by September 15, 2014. Based on the mission's response and planned actions, a management decision has been reached on this recommendation.

Recommendation 5. USAID/Peru agreed with the recommendation and will include a requirement in the award that the implementing partner identify and report on its specific contributions to the host country's health indicators and acknowledge the role of other actors in achieving them. The estimated approval date for the award modification is September 15, 2014. Based on the mission's response and planned actions, a management decision has been reached on this recommendation.

Recommendation 6. USAID/Peru agreed with the recommendation. The mission is in the process of modifying the award to include a component on building local capacities for future technical assistance for implementing the HCM model. The estimated approval date for the award modification is July 30, 2014. Based on the mission's response and planned actions, a management decision has been reached on this recommendation.

Recommendation 7. USAID/Peru agreed with the recommendation and is in the process of modifying the award to include levels of funding by components in the budget. The estimated approval date for the award modification is July 30, 2014. Based on the mission's response and planned actions, a management decision has been reached on this recommendation.

SCOPE AND METHODOLOGY

Scope

We conducted this audit in accordance with generally accepted government auditing standards. Those standards require that we plan and perform the audit to obtain sufficient, appropriate evidence to provide a reasonable basis for our findings and conclusions based on the audit objective. We believe that the evidence obtained provides that reasonable basis.

The purpose of this audit was to determine whether USAID/Peru's HP and HCM II activities were achieving their respective main goals of contributing to the improvement of (1) the quality and coverage of health services for all Peruvians, and (2) maternal/child and family planning/reproductive health in intervention areas.

For HP, the mission awarded Abt a cost-plus-fixed-fee completion type task order for approximately \$19.6 million (reduced to \$12.8 million) from January 20, 2010, to December 11, 2014. As of December 1, 2013, cumulative obligations and expenditures totaled \$12,808,838 and \$10,544,395, respectively. For HCM II, the mission awarded MSH an associate cooperative agreement for approximately \$11.9 million from December 3, 2010, to December 2, 2015. As of December 1, 2013, cumulative obligations and expenditures totaled \$10,144,513 and \$6,944,940, respectively. These expenditures represent the amounts audited.

The audit covered activities that occurred from the start of the awards—January 20, 2010, for HP and December 3, 2010, for HCM II—through October 31, 2013. In planning and performing the audit, we reviewed applicable laws and regulations as well as USAID policies and procedures pertaining to the activities, including ADS 200, 201, 202, 203, 204, 205, 206, 253, and 303 as well as supplemental guidance. The audit relied on the following sources of evidence: the contract; interviews with employees from USAID/Peru, Abt, MSH, and beneficiaries; and documentation maintained at the mission and at the implementers' main offices in Lima.

The audit team conducted fieldwork in Peru from November 4 through November 22, 2013, in Lima and the departments of San Martin and Ucayali.

Methodology

To answer the audit objective, we interviewed employees from USAID/Peru, the Peruvian Ministry of Health, the Peruvian Health Insurance Institute, Abt, and MSH.

Through these interviews and review of activity documentation, the audit team obtained an understanding of: (1) the activities' goals, (2) how performance indicators, targets, and baseline data were established to measure progress, (3) how the mission ensures the quality of the data reported by the implementing partners, (4) how the mission monitors activities, and (5) whether the mission is aware of any allegations of fraud or other potential illegal acts or noncompliance with laws, regulations, and agreement terms. We documented and tested compliance with requirements for contract documentation, gender analysis, human trafficking, sustainability, branding and marking, and environmental compliance.

To verify the status of actions completed during the activities' implementation through October 31, 2013, we visited a judgmentally selected sample of four communities, one regional health directorate, three local governments, and two health centers. The judgmental sample selection was based on an analysis of factors including the number of objectives relevant to the site and its diversity of activities. We did not visit three of the selected sites in Ucayali due to inclement weather conditions and replaced them with a site that was accessible from Pucallpa, the region's capital. We conducted field visits and interviewed beneficiaries to validate reported results to the extent possible. Since the testing and the site selections were based on judgmental samples, the results and conclusions related to the analysis were limited to the items and areas tested, and they cannot be projected to the entire population. We believe our substantive testing was sufficient to support the audit's findings.

MANAGEMENT COMMENTS

MEMORANDUM

DATE: April 23, 2014

TO: Jon Chasson, Regional Inspector General/San Salvador

FROM: Deborah Kennedy-Iraheta, USAID/Peru Mission Director /s/

SUBJECT: Comments to March 17, 2014 Draft Audit Report of two USAID/Peru's Health Activities

Thank you for giving USAID/Peru the opportunity to respond to the draft report of the Audit of USAID/Peru's Health Development Activities (Healthy Communities and Municipalities II and Health Policy) per your memorandum dated March 17, 2014.

Below we have listed each of the recommendations as presented in the March 17, 2014 draft. Following each recommendation are USAID/Peru's response and comments. Additional comments and clarification on the wording in the recommendations and/or body of the report are included in the last section of this memorandum for your consideration.

Recommendation 1. We recommend that USAID/Peru implement a performance management plan for its second development objective. The Mission concurs with this recommendation.

We agree that it is useful to have a broader strategy that guides our implementation and measures our high level achievements and is linked to the activity level Monitoring and Evaluation (M&E) plan. At the development objective level the document referred to is an M&E plan not a PMP (explained below).

The CDCS approved for Peru in 2012 did not consider a separate development objective for health activities. Instead, health activities were integrated under the Development Objective 2 (DO2): Quality and management of public services improved in the Amazon Basin, which focuses on strengthening national and sub-national institutions to deliver improved public services, including health and education (Country Development Cooperation Strategy - CDCS page 39). After the approval of the CDCS, the Mission started a realignment process of its current portfolio to operationalize the implementation of the CDCS, and opted to develop a Project Appraisal Document (PAD) for each DO. The PAD provides the framework under which all current and future implementing mechanisms coordinate and achieve each CDCS DO.

The Mission is in the process of finalizing the DO2 PAD, which, as per ADS 201 and 203, will include the DO2 M&E plan. The approved DO2 Project Logframe, and the DO2 Project M&E Plan will fold into the Mission-wide PMP. The Mission PMP requires project Logframes (see

203.3.3), which we are currently finalizing. Please take note that the DO2 Logframe has recently been modified due to unanticipated changes in funding levels.

When the DO2 M&E Plan is completed and approved by the Mission Front Office, we will request that this recommendation be closed. We estimate this will be completed by September 15, 2014.

Recommendation 2. *We recommend that USAID/Peru work with Management Sciences for Health to implement a revised monitoring and evaluation plan. The mission concurs with this recommendation.*

The mission agrees this is a good practice and is in the process of developing updated M&E plans for this activity. We have met with MSH and the evaluation consultants to stress the need to revise the plan in line with the agency and mission guidance for M&E plans. Included in those changes is a revision process to reduce the number of indicators, to focus on those that are useful for performance management as well as to assess the higher level impact of the activity. A revised set of indicators for Health Communities and Municipalities II (HCM II) is currently under review.

When the revised HCM II M&E plan is formally approved by USAID, we will request that this recommendation be closed. We expect this approval to be given by September 15, 2014.

Recommendation 3. *We recommend that USAID/Peru work with Abt Associates Inc. to implement a revised monitoring and evaluation plan. The mission concurs with this recommendation.*

The mission agrees this is a good practice and is in the process of developing updated M&E plans for this activity. We have met with Health Policy (HP) staff under the Abt Associates, Inc. contract and the evaluation consultants to map out changes to the plan in line with agency and mission guidance for M&E plans. Included in those changes is a revision process to reduce the number of indicators, to focus on those that are useful for performance management as well as to assess the higher level impacts of the activity. A revised set of indicators for HP is currently under review.

When the revised M&E plan is formally approved by USAID, we will request that this recommendation be closed. We expect this approval to be given by September 15, 2014.

Recommendation 4. *We recommend that USAID/Peru implement a performance indicator that measures whether the Health Policy activity is making progress in strengthening public health institutions at the national level. The Mission concurs with this recommendation.*

It would be useful to measure the progress of activities that HP is carrying out at the national (aka central government) level, as specified in the contract. In order to identify the indicators it will be necessary to update the Health Policy M&E plan, which we will carry out in response to recommendation 3.

When the revised M&E plan is formally approved by USAID, we will request that this recommendation be closed. We expect approval of the HP M&E plan to be given by September 15, 2014.

Recommendation 5. *We recommend that USAID/Peru require Abt Associates Inc. to identify in its progress reports the Health Policy activity's specific contribution to the Peruvian strategic health indicators.* **The Mission concurs with this recommendation.**

We agree that this is good practice to identify the implementing partner's specific contribution to the host country health indicators and acknowledge the role of other actors in achieving them. In consultation with our Regional Office of Acquisition and Assistance, we have determined that the most efficient way to do this is to include an additional requirement to section F.6(I)(b) Quarterly progress reports of the Task Order in the upcoming planned modification. The modification will add item 9, which will specify additional information required in the reports to report on the Peruvian strategic health indicators.

When the modification to the contract is approved, we will request that this recommendation be closed. We estimate the modification to the contract will be approved on or about September 15, 2014.

Recommendation 6. *We recommend that USAID/Peru implement a sustainability strategy to make sure the HCM II methodology continues after the activity ends.* **The Mission concurs with this recommendation.**

We agree that ensuring that the HCM II methodology continues to be a viable tool used in Peru after the activity ends is important. In fact, the HCM II Associate Award program description Component 2) Public and Private Sector Adoption of HCM Model and Component 3) Peruvian Capacity for Sustainability, include activities specifically targeted to building local capacity for sustaining program advances. The current HCM II project is designed to consolidate the approach and model developed through the original USAID/Peru HCM project and provide assistance to transfer the approach or model to public and private entities, as well as ensure that one or more Peruvian institutions can provide this assistance after the project ends, in order to sustain the significant gains achieved in promoting maternal and child health in Peru.

We agree that creating a sustainability plan for the remaining life of the award will be a useful tool to prioritize efforts. The HCM methodology is a tool that is useful to engage participation at the community level and strengthen decentralized decision-making. It is a methodology that can and should be adapted to fit the needs of those working on it. While we will ensure there is work to build local capacity among non-governmental organizations, we are also committed to ensuring that public entities and government organizations continue to scale-up and use the HCM tools. The project description will be updated to include a component to build local capacities for future technical assistance for HCM model implementation.

We are in the process of implementing an agreement modification; when it is finalized we will request that this recommendation be closed. We estimate the modification to be approved by July 30, 2014.

Recommendation 7: *We recommend that USAID/Peru have its Regional Office of Acquisition and Assistance modify the agreement with Management Sciences for Health, including the budget support table for the three components and the activity description, to clarify the shift in emphasis. The Mission concurs with this recommendation.*

At the time of the change in approach cited in the Audit Report, the Contracting Officer was consulted on multiple occasions, in line with ADS 202.3.6.3, which states: “*Changing projects and instruments mid-stream can create legal problems and disrupt implementation. Consequently, the risk of such changes must be balanced prudently against the intended benefit. Always remember that once a plan is finalized and implementation begins, learning occurs... The DO Team must consult the Contracting/Agreement Officer and, if appropriate, GC or its RLA as soon as possible when it is considering any change that would affect a legal agreement.*”

Upon complying with this process it was agreed in May 2012 that a modification to the contract was not necessary (see attached documentation). However, the Mission agrees that the level of funding by components could have been documented in a budget modification.

We are in the process of implementing an agreement modification. Once this process is concluded, we will request that this recommendation be closed. We estimate the modification to be approved by July 30, 2014.

Comments/Suggestion/Clarifications related to the Body of the Report:

Below are some suggested clarifications/changes to consider before the final issuance of the audit report. There are a few statements in the Draft Report which the Mission would ask to be revisited for more clarity and/or accuracy.

Page 1:

Paragraph 3: We suggest adding the following clarifying statement: “*The Abt contract was competitively awarded on a fair opportunity basis on January 20, 2010 at an estimated cost of US\$19,575,526 for a five-year period. Due to reduction of health funds to Peru ending with FY2012, this project was de-scoped and the TEC reduced to US\$12,808,838.*”

Paragraph 6: The report states: “According to mission officials, this decision was reached because Peru had reached a stage where direct health interventions were no longer needed.” We suggest the following statement more accurately reflects the situation: “*In light of positive economic and health indicators and reductions in budget support, USAID Washington prioritized development needs in Africa and elsewhere over those in Peru.*”

Page 2:

Third bullet: GalenHos has changed to Sis-GalenHos-Plus. Sis-GalenHos-Plus is the copyright

name the system is registered under in Peru. Word “clinics” should be *primary healthcare facilities*; and “Peruvian social insurance organization” is the *Ministry of Health*.

Seventh paragraph: The report states: “Although activities for this [fifth] outcome are scheduled to start in the current quarter, auditors confirmed that nobody from Abt was working on this.” In December 2013, HP hired a local consultant in San Martin to support HP activities, including the fifth outcome. In February 2014, HP hired a Team Leader to re-initiate TA in this fifth outcome.

Page 3:

Numbered bullets: 1, 2 and 3 Change the word implement to *draft* or *develop*. We propose the wording be changed from “implement” (which implies a commitment to carry out activities which we may or may not be able to do based on the fact that our funds ended in FY12).

Bullet 4 - We propose the wording be changed from implement, which implies a commitment to carry-out activities; whereas the intent of the wording is to *identify*.

Page 4:

Fourth paragraph: Regarding why the PMP document had not been finalized at the time of the audit, the audit report states: “An official said uncertainty over the amount of health funding and the scope of health activities delayed the PMP’s completion. The mission stopped receiving health funds in FY 2012 and their Health Exit Plan outlined measures for the continuation of activities, including the identification of other sources of funds” - this statement refers to an M&E plan for the Health team only and does not reflect the reasons why the DO2 M&E plan (not a “PMP,” which only applies at the CDCS level of monitoring) has not been completed. The mission suggests changing PMP to Monitoring and Evaluation plan.

Page 5:

While we agree in general with recommendation 4, we do not agree with the basis as described in the last paragraph. The audit report states that the basis for Recommendation 4 is “it (HP) did not establish indicators to measure how and whether the activity helps promote these results at the national level. For instance, participants at the technical and training activities came from the intervention regions of Ayacucho, San Martin and Lima; an insignificant number of people came from other regions. Without proper training in those regions, it is not clear how the benefits of the training activities will be disseminated throughout the rest of the country once the HP activity is ready to be disseminated nationally.”

To clarify, it is not part of the HP contract to disseminate and/or conduct training nationwide. What is meant by “national” is “Central government” which includes the Ministry of Health, Ministry of Social inclusion, etc. We are at a point in health development assistance where we no longer pursue massive training of health personnel as a cost effective way to improve or strengthen health systems. We do not have the resources to blanket cover all public health workers or facilities in Peru, rather our aim is to strengthen the central level (national level) processes and capacities in selected areas for eventual scale-up (to other regions) by the Peruvian government with their resources.

Page 7:

Paragraph 6: We can develop a sustainability strategy but whether or not we can “implement” it is questionable, this implies funding is available and the last year of health funds we received were in FY12. We suggest the wording change from implement to *develop*. In order to close the recommendation we would have to have completed the activity which will not happen before a one year period.

Page 8:

Paragraph 2: The audit report states “The mission did not modify the award because, according to the Agreement Officer Representative (AOR), the annual work plan was modified, and the AOR thought that action was sufficient.” This is an incorrect statement and implies the AOR made an executive decision and did not follow the required internal consultative and approval process. In fact, numerous discussions were held with the AO and the ROAA team on this issue. The AO determined (and the AOR concurred) that the PD did not need to be modified but rather the changes would be managed through the workplan. We do however concur that amending the budget for each component would have added more clarity. Please see attached documentation for more information. We ask that this paragraph be significantly reworded or removed.

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