OFFICE OF INSPECTOR GENERAL

AUDIT OF COMMODITIES FUNDED UNDER THE PRESIDENT'S MALARIA INITIATIVE IN KENYA

AUDIT REPORT NO. 4-615-12-011-P
JUNE 28, 2012

PRETORIA, SOUTH AFRICA

Office of Inspector General

June 28, 2012

MEMORANDUM

TO: USAID/Kenya Mission Director, Erna Kerst

FROM: Regional Inspector General/Pretoria, Christine M. Byrne /s/

SUBJECT: Audit of Commodities Funded Under the President's Malaria Initiative in Kenya (Report No. 4-615-12-011-P)

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

The report includes 12 recommendations to strengthen USAID/Kenya's implementation of the President's Malaria Initiative. With the information you provided in your response to the draft report, we determined that management decisions have been reached on all 12 recommendations, and final action has been taken on Recommendations 2, 4, 5, 6, 7, 8, 9, and 10. Please also provide the Office of Audit Performance and Compliance Division with the necessary documentation to achieve final action on Recommendations 1, 3, 11, and 12. Recommendations 2, 4, 5, 6, 7, 8, 9, and 10 are closed upon report issuance.

I want to express my sincere appreciation for the cooperation and courtesy extended to my staff during the audit.

U.S. Agency for International Development
100 Totius Street
Groenkloof X5, 0181
Pretoria, South Africa
www.usaid.gov/oig

CONTENTS

Abbreviations

The following abbreviations appear in this report:

ACT	artemisinin-based combination therapies
ADS	Automated Directives System
AOR	agreement officer's representative
JSI	John Snow Inc.
KEMSA	Kenya Medical Supplies Agency
MSH	Management Sciences for Health
PMI	President's Malaria Initiative
PSI	Population Services International
RIG	Regional Inspector General

SUMMARY OF RESULTS

According to Kenya's National Malaria Strategy 2009-2017 (published in July 2009), malaria is responsible for 30 percent of outpatient visits, 19 percent of hospital admissions, and 3 to 5 percent of inpatient deaths at the country's health facilities. To reduce the costs of this disease, the Government of Kenya has made malaria control a priority investment, with the goal of reducing malaria-related deaths by two-thirds between 2007/2008 and 2017. To support this goal, USAID/Kenya, through the President's Malaria Initiative (PMI), funds four key interventions targeted at the prevention and treatment of malaria: indoor residual spraying with insecticides to kill mosquitoes that spread malaria, providing intermittent preventive treatment for pregnant women, buying and distributing insecticide-treated bed nets (nets), and buying and distributing artemisinin-based combination therapies (ACTs) to treat properly diagnosed malaria. The mission also supports the Kenyan Government in areas such as epidemic surveillance and response, case management, and behavior change interventions—for example, persuading people to sleep under bed nets nightly to prevent malaria. Other donors to malaria activities in Kenya include the Global Fund to Fight AIDS, Tuberculosis and Malaria (the Global Fund); the United Kingdom's Department for International Development; and the World Bank.

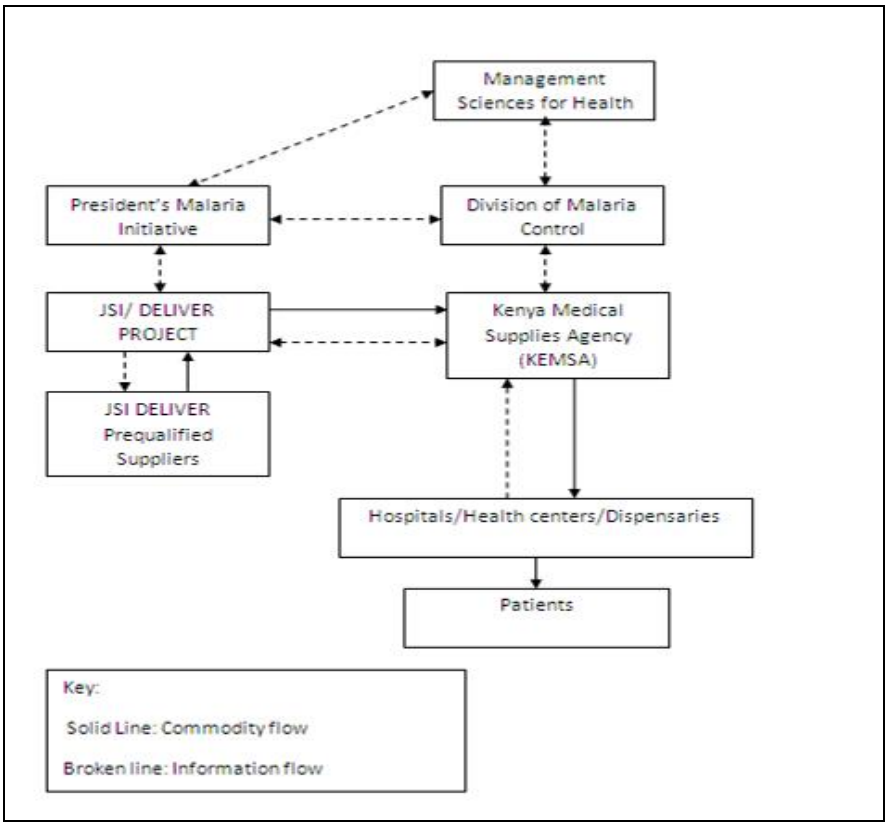
In its fiscal year 2010 budget (for the implementation of fiscal year 2011 activities), USAID/Kenya allocated $40 million for malaria activities, of which $23.9 million was designated for the purchase of commodities. Specifically, $12.5 million was budgeted for the purchase of nets and $8 million for ACTs. The remaining amount was for indoor residual spraying supplies, test kits for the rapid diagnosis of malaria, and microscopes to diagnose malaria in laboratories.

Nets. With the money budgeted for fiscal year 2011 activities, USAID/Kenya procured 2.2 million nets through the John Snow Inc. (JSI) DELIVER PROJECT. These nets were delivered to Population Services International (PSI), which coordinated distribution to the intended beneficiaries. (PSI distributes nets as implementer of the Health Communication and Marketing Project under a $51.4 million, 5-year cooperative agreement signed with USAID on April 1, 2007. The project is part of the AIDS, Population and Health Integrated Assistance Program II.) PSI delivered 377,000 nets to Kenyan health facilities for distribution to pregnant women and those with children under the age of 1 and another 2.6 million nets (some procured in fiscal year 2010) to designated health facilities for mass distribution in districts prone to malaria epidemics. These mass distributions were intended to achieve universal coverage, defined by the 2009-2017 National Malaria Strategy as one net for every two people at risk for malaria.

ACTs. With fiscal year 2011 funds, USAID/Kenya placed orders for 5.1 million ACTs through the DELIVER PROJECT. As of the end of the fiscal year, 3.6 million of these ACTs had been delivered to the Kenya Medical Supplies Agency (KEMSA), which then delivered 3.3 million of them to Kenyan health facilities for free distribution to malaria patients. By December 31, 2011, an additional 246,000 treatments had arrived in Kenya and been distributed to health facilities.

The ACT distribution process is depicted on the next page, with solid lines indicating the movement of commodities and the broken lines indicating the flow of information. In general, the information that the entities share is used in determining when and how ACTs should be distributed throughout the country.

Distribution of ACTs



Source: MSH.

Beginning in fiscal year 2011, USAID also funded two programs with components designed to strengthen the PMI commodities supply chain in Kenya. The $10.3 million, 2-year KEMSA Support Program, implemented under a contract with Deloitte Consulting, was tasked with improving KEMSA's operations to ensure an effective, sustainable, and reliable supply chain. The $25 million, 5-year Health Commodities and Services Management Program in Kenya, implemented by Management Sciences for Health (MSH), was intended to strengthen commodity management, pharmaceutical services and policy, and laboratory systems in Kenya's Ministries of Health.[1] These programs have no direct responsibility to ensure that PMI-funded commodities reach their intended beneficiaries.

The theft, loss, and misuse of malaria commodities are well-documented problems in Africa. Investigations have revealed that "millions of dollars of donated antimalarial drugs have been stolen,"[2] and Office of Inspector General reports covering PMI activities in Angola, Benin,

[1] Kenya has both a Ministry of Medical Services and a Ministry of Public Health and Sanitation. The audit refers to these ministries collectively as the Ministries of Health.

[2] Roger Bate, "Partners in Crime: National Theft of Global Fund Medicines," Africa Fighting Malaria Briefing Paper, April 20, 2011.

Malawi, and Nigeria have noted instances of missing commodities.[3] Aware of these problems and of perceived public sector corruption in Kenya,[4] the Regional Inspector General/Pretoria (RIG/Pretoria) conducted this audit to determine whether USAID/Kenya's PMI-funded commodities were reaching their intended beneficiaries.

The audit identified significant internal control weaknesses in the Kenyan health facilities visited. As a result, the audit could not conclude to what extent selected PMI-funded commodities reached their intended beneficiaries (page 5).

Additionally, the audit found that:

- USAID/Kenya's management of PSI's Health Communication and Marketing Project was inadequate (page 9). Besides losing an award file, the mission did not adequately review documentation submitted by PSI, undermining the purpose of performance monitoring.

- USAID/Kenya has not marked ACTs to deter theft (page 13). The mission explored marking these commodities but found it would add to their cost and limit its procurement flexibility. However, the unmarked treatments, packaged like drugs available in Kenyan shops, could not easily be identified or recovered if stolen.

- USAID/Kenya misstated its fiscal year 2011 results for malaria activities (page 14). Mission officials mistakenly used procurement records instead of distribution reports to compile results. As a result, USAID and PMI results were similarly misstated.

- Despite the mission's desire for recognition, beneficiaries and even those involved in the distribution processes were generally unaware of the U.S. Government's role in helping reduce malaria deaths, indicating that USAID/Kenya's branding and marking efforts were not effective (page 16).

The report recommends that USAID/Kenya:

1. Coordinate with the Government of Kenya and issue an implementation letter under its development assistance grant agreement to (1) define the minimum standards acceptable for the treatment of and accounting for commodities funded by PMI and distributed through Kenyan systems, (2) confirm and record the Government of Kenya's commitment as a partner in strengthening those systems, and (3) specify the rights and responsibilities of the parties if minimum standards are not adhered to (page 9).

[3] "Audit of USAID/Angola's Procurement and Distribution of Commodities Under the President's Malaria Initiative," Report No. 4-654-10-001-P, December 21, 2009; "Audit of USAID/Benin's Implementation of the President's Malaria Initiative," Report No. 7-680-11-004-P, February 14, 2011; "Audit of USAID/Malawi's Implementation of the President's Malaria Initiative," Report No. 4-612-12-005-P, January 25, 2012; and "Audit of USAID/Nigeria's Malaria Interventions," Report No. 7-620-10-008-P, July 7, 2010.

[4] Kenya scored 2.2 on Transparency International's 2011 Corruption Perceptions Index, ranking 154th out of 183 countries/territories (154th most corrupt). According to the organization's Web site, the index indicates the perceived level of public sector corruption on a scale of 0 to 10, and 0 means highly corrupt. Perceptions are those of observers around the world, including experts in the evaluated countries.

2. Remind mission staff members, in writing, of their responsibility to document the removal of any official award files from their designated storage location and to return those files when no longer needed (page 9).

3. Update its mission order on performance monitoring to give specific guidance on monitoring programs outside of one's technical program team (page 10).

4. Remind agreement officer's representatives (AORs), in writing, of their responsibility to review and approve programs' annual work plans in accordance with the terms of each agreement (page 11).

5. Remind AORs, in writing, of their responsibility to monitor recipients' performance reports in accordance with the terms of the agreement (page 11).

6. Remind agreement officers and AORs, in writing, of their responsibility to monitor recipients' financial reports to ensure that each recipient makes progress toward meeting the cost-sharing requirement (page 12).

7. Determine the allowability of $293,000 in ineligible questioned costs stemming from PSI's reallocation of cost savings from net distribution activities, and recover from PSI any amounts determined to be unallowable (page 13).

8. Obtain a cost estimate for the additional marking of ACTs and determine, in conjunction with the Division of Malaria Control and KEMSA, whether marking these commodities would seriously deplete funding for or otherwise interfere with the effective treatment of malaria (page 14).

9. If the Division of Malaria Control and KEMSA agree, mark ACTs to deter theft (page 14).

10. Notify the U.S. State Department's Office of U.S. Foreign Assistance Resources, in writing, of the misreported results for malaria-related commodity indicators in fiscal years 2010 and 2011 (page 15).

11. Update the Office of Population and Health's performance management plan to include the same indicators reported to the Office of U.S. Foreign Assistance Resources for PMI, and add the appropriate data sources (page 16).

12. Determine and document its objectives for identifying goods and services provided under Kenya's PMI as American aid, and update its communication strategies, including current branding and marking plans, if they do not currently achieve those objectives (page 16).

Detailed findings appear in the following section, and the scope and methodology appear in Appendix I. Management comments are in Appendix II, and our evaluation of management comments is on page 17.

AUDIT FINDINGS

USAID/Kenya Cannot Ensure Commodities Have Reached Intended Beneficiaries

In accordance with USAID Forward, a package of reforms that includes increased use of partner-country systems, USAID/Kenya is using Kenyan systems to distribute PMI-funded commodities to their intended beneficiaries. Nets are distributed to beneficiaries at health facilities supported by the Ministries of Health (routine distribution) and through government-run mass distributions (mass distributions); ACTs are distributed to patients at health facilities supported by the Ministries of Health.

Each of these commodities is destined for a specific population, defined in conjunction with the Division of Malaria Control. In fiscal year 2011, nets for routine distribution were intended for pregnant women and those with children under 1 year old, and nets for mass distribution were intended to achieve universal coverage in epidemic and endemic areas of Kenya. ACTs were intended for patients at Kenyan health facilities.

The audit confirmed, with limited exceptions, that PSI delivered the nets procured by USAID to health facilities as planned and that ACTs procured by USAID were delivered to the KEMSA warehouse. However, while USAID officials expressed confidence that nets and ACTs had reached their intended beneficiaries, the audit identified internal control weaknesses in the Government of Kenya's distribution systems that prevented verification. Those weaknesses are described below.

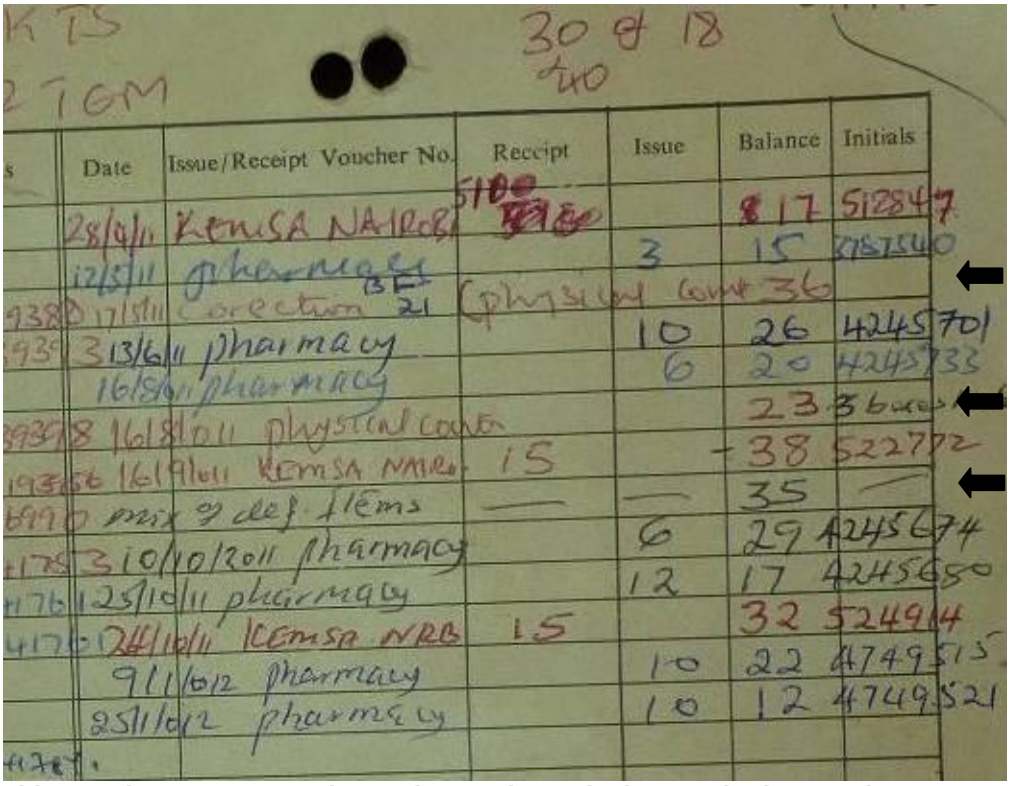
Nets. The audit team visited 8 of the more than 1,600 health facilities that received PMI-funded nets for routine distribution and 5 of the 115 health facilities that received PMI-funded nets for mass distribution. The visits were to review records supporting the receipt of PMI-funded nets from PSI and the storage and movement of those nets before distribution to their intended beneficiaries (or their physical existence if not distributed).

Records reviewed by the audit team at six of the eight routine distribution locations (75 percent) and four of the five mass distribution locations (80 percent) were adequate to support the distribution of nets to USAID's intended beneficiaries. However, one location was unable to show the audit team an entry into inventory for 600 PMI-funded nets that they confirmed receiving; another location had combined nets designated for different beneficiaries into a single pool and had issued nets to facility employees without a documented reason; and a mass distribution location had not required beneficiaries to sign a register to document that they had received a net, reportedly because the process was taking too long.

ACTs. The audit team visited 23 of the 3,195 health facilities that received PMI-funded ACTs. At each one, the team reviewed records supporting the receipt of PMI-funded ACTs from KEMSA, the entry of those ACTs into the health facility's inventory, and either the distribution of those ACTs to their intended beneficiaries or their physical existence.

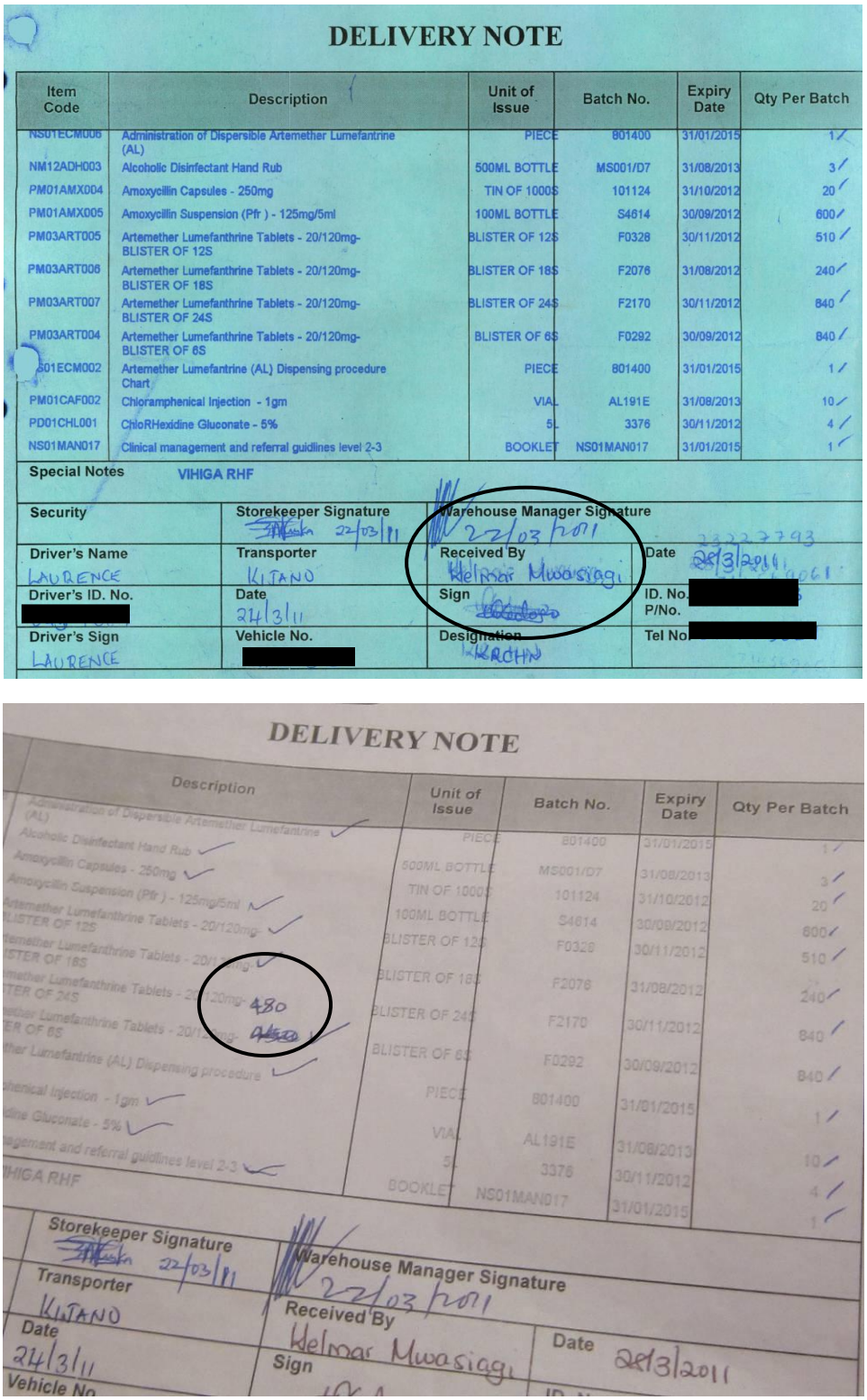
At 5 of the 23 facilities (22 percent), records were adequate to support the distribution of PMI-funded ACTs to their intended beneficiaries. At the remaining 18 health facilities, records (like

those that follow) were inadequate. Some facilities had multiple record-keeping inadequacies: 3 facilities could not fully support the receipt of one or more PMI-funded ACT deliveries from KEMSA's transporters, 14 could not support the entry of PMI-funded ACTs into a properly controlled inventory system, and 6 could not support the distribution of PMI-funded ACTs to their intended beneficiaries. Detailed findings from the 18 health facilities are in Appendix III.



s	Date	Issue/Receipt Voucher No.	Receipt	Issue	Balance	Initials
	28/4/11	KEMSA NAIROBI	5100		817	5128447
	12/5/11	pharmacy		3	15	4245740
9380	17/5/11	Correction BF 21	(physical count 36)			
935	3 13/6/11	pharmacy		10	26	4245701
	16/8/11	pharmacy		6	20	4245733
9937	8 16/8/11	physical count			23 36	
1936	6 16/9/11	KEMSA NAIRO.	15		38	5227722
699	0 mix of def. items		—	—	35	—
175	3 10/10/2011	pharmacy		6	29	4245674
176	25/10/11	pharmacy		12	17	4245650
4176	26/10/11	KEMSA NRB	15		32	5249144
	9/11/012	pharmacy		10	22	4749515
	25/11/012	pharmacy		10	12	4749521

This ACT inventory record contains mathematical errors in the Receipt, Issue, and Balance columns and unexplained adjustments in the rows indicated by arrows. (Photo by RIG/Pretoria, January 2012)



DELIVERY NOTE

Item Code	Description	Unit of Issue	Batch No.	Expiry Date	Qty Per Batch
NS01ECM006	Administration of Dispersible Artemether Lumefantrine (AL)	PIECE	801400	31/01/2015	1
NM12ADH003	Alcoholic Disinfectant Hand Rub	500ML BOTTLE	MS001/D7	31/08/2013	3
PM01AMX004	Amoxycillin Capsules - 250mg	TIN OF 1000S	101124	31/10/2012	20
PM01AMX005	Amoxycillin Suspension (Pfr) - 125mg/5ml	100ML BOTTLE	S4614	30/09/2012	600
PM03ART005	Artemether Lumefanthrine Tablets - 20/120mg- BLISTER OF 12S	BLISTER OF 12S	F0328	30/11/2012	510
PM03ART006	Artemether Lumefanthrine Tablets - 20/120mg- BLISTER OF 18S	BLISTER OF 18S	F2076	31/08/2012	240
PM03ART007	Artemether Lumefanthrine Tablets - 20/120mg- BLISTER OF 24S	BLISTER OF 24S	F2170	30/11/2012	840
PM03ART004	Artemether Lumefanthrine Tablets - 20/120mg- BLISTER OF 6S	BLISTER OF 6S	F0292	30/09/2012	840
NS01ECM002	Artemether Lumefantrine (AL) Dispensing procedure Chart	PIECE	801400	31/01/2015	1
PM01CAF002	Chloramphenical Injection - 1gm	VIAL	AL191E	31/08/2013	10
PD01CHL001	ChloRHexidine Gluconate - 5%	5L	3376	30/11/2012	4
NS01MAN017	Clinical management and referral guidlines level 2-3	BOOKLET	NS01MAN017	31/01/2015	1

Special Notes VIHIGA RHF

Security	Storekeeper Signature 22/03/11	Warehouse Manager Signature 22/03/2011	
Driver's Name LAURENCE	Transporter KITANO	Received By Helmar Mwasiagi	Date 28/3/2011
Driver's ID. No. [redacted]	Date 24/3/11	Sign	ID. No. [redacted] P/No.
Driver's Sign LAURENCE	Vehicle No. [redacted]	Designation KRCHN	Tel No [redacted]

DELIVERY NOTE

Description	Unit of Issue	Batch No.	Expiry Date	Qty Per Batch
Administration of Dispersible Artemether Lumefantrine (AL)	PIECE	801400	31/01/2015	1
Alcoholic Disinfectant Hand Rub	500ML BOTTLE	MS001/D7	31/08/2013	3
Amoxycillin Capsules - 250mg	TIN OF 1000S	101124	31/10/2012	20
Amoxycillin Suspension (Pfr) - 125mg/5ml	100ML BOTTLE	S4614	30/09/2012	600
Artemether Lumefanthrine Tablets - 20/120mg- BLISTER OF 12S	BLISTER OF 12S	F0328	30/11/2012	510
Artemether Lumefanthrine Tablets - 20/120mg- BLISTER OF 18S	BLISTER OF 18S	F2076	31/08/2012	240
Artemether Lumefanthrine Tablets - 20/120mg- BLISTER OF 24S 480	BLISTER OF 24S	F2170	30/11/2012	840
Artemether Lumefanthrine Tablets - 20/120mg- BLISTER OF 6S	BLISTER OF 6S	F0292	30/09/2012	840
Artemether Lumefantrine (AL) Dispensing procedure Chart	PIECE	801400	31/01/2015	1
Chloramphenical Injection - 1gm	VIAL	AL191E	31/08/2013	10
ChloRHexidine Gluconate - 5%	5L	3376	30/11/2012	4
Clinical management and referral guidlines level 2-3	BOOKLET	NS01MAN017	31/01/2015	1

VIHIGA RHF

Storekeeper Signature 22/03/11	Warehouse Manager Signature 22/03/2011	
Transporter KITANO	Received By Helmar Mwasiagi	Date 28/3/2011
Date 24/3/11	Sign	
Vehicle No		

On the top, KEMSA's delivery note duplicate indicates that a health facility employee signed for all commodities received in March 2011, yet on the bottom, the health facility's copy of the delivery note has been adjusted to show that only 480 of 840 treatments were received. (Record scanned by KEMSA officials, January 2012; photo by RIG/Pretoria, January 2012)

Further, the prevalence in March 2011 of problems with inventory records could indicate fraudulent activity. As noted above, 18 facilities the auditors visited could not support either the proper receipt, storage, or distribution of PMI-funded ACTs. Of these 18, 14 received 19,470 PMI-funded ACTs during March 2011, 25.6 percent of which (4,980 treatments) could not be accounted for. These missing treatments cost USAID an estimated $5,700.[5] Auditors referred the matter to Office of Inspector General investigators.

While the Kenyan health systems USAID used to distribute PMI commodities have been designed to ensure accountability, the controls in place at health facilities are largely manual and easily circumvented because, in many cases, health facility employees responsible for commodity management have not been properly trained or are not adequately supervised. Frequent staff turnover exacerbates these problems, as do competing priorities from the Ministries of Health, resulting in decreased funds to the Division of Malaria Control.

Aware of the imperfections in the Kenyan health systems, USAID/Kenya has funded programs to strengthen them (although these programs have not had direct responsibility to ensure that PMI-funded commodities reach their intended beneficiaries). In prior years, USAID funded a program that worked to strengthen pharmaceutical systems; currently the mission is funding Deloitte Consulting to implement supply chain improvements at KEMSA and funding MSH to support the Ministries of Health at all levels. However, the contract with Deloitte was not signed until May 2011, and the agreement with MSH was not signed until April 2011, so these programs have not yet had time to produce significant results.

Still, these programs are limited in their ability to strengthen Kenyan health systems unless all levels of the Kenyan Government commit to doing so. Although there is a development assistance grant agreement between the United States and Kenya, the language is very broad and does not include details on specific activities. USAID/Kenya has not defined minimum standards for the systems used to distribute PMI-funded commodities and has not asked the Government of Kenya to enter into an agreement that names its ministries as partners in strengthening those systems. Essentially, under the current structure, once ACTs are delivered to KEMSA or nets are delivered to health facilities, USAID has no formal channels to influence how those commodities are handled or accounted for. A jointly agreed-upon implementation letter under the development assistance grant agreement could specify those responsibilities and establish distribution standards to ensure that the purchase of PMI commodities in Kenya is an effective use of U.S. taxpayer money.

Although data shows that malaria prevalence and malaria-related deaths are declining in Kenya, the mission cannot be sure that USAID-funded commodities are reaching intended beneficiaries because of internal control weaknesses in the Kenyan health systems used to distribute them. Therefore, commodities may not be having the largest possible impact.

Since USAID/Kenya's use of Kenyan systems is in line with the principles of USAID Forward and steps are already being taken to strengthen these systems, the audit makes only the following recommendation, to help ensure that the systems are reliable.

[5] Distribution records show that 979 facilities received 979,350 PMI-funded ACTs in March 2011. Since facilities the audit team visited were selected judgmentally, not statistically, the team cannot project how many of these treatments were missing or their value.

Recommendation 1. *We recommend that USAID/Kenya coordinate with the Government of Kenya and issue an implementation letter under its development assistance grant agreement to (1) define the minimum standards acceptable for the treatment of and accounting for commodities funded by the President's Malaria Initiative and distributed through Kenyan systems, (2) confirm and record the Government of Kenya's commitment as a partner in strengthening those systems, and (3) specify the rights and responsibilities of the parties if minimum standards are not adhered to.*

USAID/Kenya's Management of One Award Was Inadequate

According to Automated Directives System (ADS) 202.3.7, a USAID mission and its development objective teams "are responsible for managing the resources made available to them so that planned outputs and results are achieved in a cost-effective and timely manner, in accordance with applicable regulatory requirements." At USAID's overseas missions, the agreement officer and the AOR share primary responsibilities for managing ongoing assistance agreements. The AOR is the person designated by the agreement officer to administer certain aspects of an award to ensure that "USAID exercises prudent management over its awarded assistance and makes the achievement of program objectives easier by monitoring and evaluating the recipient and its performance during the award" (ADS 303.2(f)).

However, the audit identified several areas in which the management of the PSI Health Communication and Marketing Project's malaria activities was inadequate.

USAID/Kenya Lost an Award File. ADS requires the retention of specific award and preaward documents in an official award file. For example, under ADS 303.3.6.4, the review and evaluation of responses to a program solicitation must be documented and retained in the official award file. However, USAID officials could not locate one of two official award files for the PSI program.[6] Among other items, this missing file should have contained documents supporting the selection of PSI as the winner of the award and decisions made by the mission on the program budget. Because of the missing file, the agreement officer, who inherited responsibility for the award from her predecessor, was unable to answer certain questions from the audit team on how the award was structured.

While it is not evident what happened to the file, the locator card that the mission requires be completed for the removal of files from the room where they are stored was not available. The mission presumed that the missing file was removed before the policy requiring documentation took effect on June 13, 2011. However, it is also unclear whether the mission's policy has been adequately communicated to new mission staff members, who therefore may not be following the guidance. To prevent missing files in the future, the audit makes the following recommendation.

Recommendation 2. *We recommend that USAID/Kenya, in conjunction with USAID/East Africa, remind mission staff members, in writing, of their responsibility to document the removal of any official award files from their designated storage location and to return those files when no longer needed.*

[6] Procurement functions for USAID/Kenya are handled by officials from USAID/East Africa who are colocated at the mission.

Review of Planning Documents Was Incomplete. According to the terms of its agreement, PSI should have submitted a performance monitoring plan for the program and an annual work plan to USAID officials. The performance monitoring plan should have included the indicators used to measure achievement and the method and time frame for data collection, while annual work plans should have included the performance indicators and targets that PSI proposed to utilize in the coming year.

The program submitted both of these documents to the AOR, and the AOR and PMI technical team met with PSI officials to finalize the most recent annual work plan. However, both documents lacked required elements:

- Only two of the seven malaria indicators in the program's fiscal year 2011 work plan had been defined in the program's performance monitoring plan.

- Of the seven malaria indicators in the annual work plan, PSI established performance targets for only five.

- For four of the five indicators whose performance targets were defined in the annual work plan, performance targets changed, some considerably, throughout the course of the year.

- Targets established in the annual work plan did not agree with targets set in the mission's malaria operational plan. The various targets for these indicators are shown in Appendix IV.

A previous Office of Inspector General audit of USAID/Kenya's HIV prevention activities noted a similar problem.[7] Auditors noted that quarterly reports for the Health Communication and Marketing Project's HIV prevention activities did not have performance targets and that certain planning documents had not been completed. In response to that audit, the mission committed to seeing that PSI regularly updates and modifies its plans in response to programmatic changes.

Mission officials should have ensured that the performance monitoring plan and annual work plan contained required elements. The AOR, whose area of expertise is HIV prevention, indicated that she relied on the PMI technical team to advise her on the program's malaria-related activities. The PMI technical team, however, focuses on completion of the higher-level malaria objectives in the mission's operation plans and is not as familiar with the terms and conditions of the PSI agreement.

The lack of understanding between USAID and PSI as to which malaria activities would be reported on and what the targets would be for the corresponding indicators made it difficult for USAID to assess PSI's performance. It also created an environment where PSI was able to change targets to match likely results, undermining the purpose of performance monitoring. Because the program ended in April 2012, the audit makes only the following recommendations.

> ***Recommendation 3.*** *We recommend that USAID/Kenya update its mission order on performance monitoring to give specific guidance on monitoring programs outside of one's technical program team.*

[7] "Audit of USAID/Kenya's PEPFAR-Funded Activities for the Prevention of Transmission of HIV," Report No. 7-615-10-010-P, July 29, 2010.

Recommendation 4. *We recommend that USAID/Kenya remind agreement officer's representatives, in writing, of their responsibility to review and approve programs' annual work plans in accordance with the terms of each agreement.*

Review of Performance Reports Was Incomplete. According to ADS 203.3.3.2(b), USAID "should use performance information to assess progress in achieving results and to make management decisions on improving performance." To give the AOR the necessary information to perform this assessment, according to the terms of the agreement, PSI must submit a report to the AOR within 1 month after the end of the quarter. This report should include a comparison of actual results with planned results and an explanation for any targets not met. The AOR then has 30 days to review the report and provide feedback.

However, the AOR did not notice that PSI was reporting results on a calendar year basis under fiscal year headings. For example, for the first quarter of fiscal year 2011 (ended December 31, 2010), PSI reported the routine distribution of 321,000 PMI nets, but for the second quarter (ended March 31, 2011), the year-to-date total reflected only 19,000 nets because it was the first quarter of the calendar year. At the end of fiscal year 2011 (September 30, 2011), PSI's quarterly reports showed that only 56,000 nets had been distributed routinely, yet distribution records showed 377,000 nets had been distributed.

Further, the audit team asked why PSI had reached only 535,000 caregivers with community-based behavior change interventions in fiscal year 2011, instead of the planned 687,500 (or 825,000 depending on the target used). PSI explained that the variance was because its performance targets were set by calendar year, rather than fiscal year, so PSI officials believed they had another quarter left to achieve planned results. However, contrary to the cooperative agreement, PSI did not explain these variances in the report, and the AOR did not question them.

The AOR said that she relied on the PMI technical team to advise her on the program's malaria-related activities. Yet the PMI technical team was not responsible for the day-to-day management of the award, including reviews of quarterly reports.

PMI relies on accurate data to demonstrate progress toward goals. Inconsistencies in the results reported by PSI could have led the mission to report inaccurate results for its malaria activities and achievements in Kenya. (However, the mission did not use PSI's performance reports to derive annual results, as discussed on page 14.) Because the program ended in April 2012, the audit makes only the following recommendation.

Recommendation 5. *We recommend that USAID/Kenya remind agreement officer's representatives, in writing, of their responsibility to monitor recipients' performance reports in accordance with the terms of the agreement.*

USAID/Kenya Officials Did Not Monitor Cost Sharing Adequately. Cost share refers to the resources that an award recipient contributes to the total cost of an agreement. The cost share should always support or contribute to the achievement of results. According to ADS 303.3.10, "cost sharing becomes a condition of an award when it is part of the approved award budget," and according to ADS 303.3.10.4, mission officials should "monitor the recipient's financial reports to ensure that the recipient is making progress toward meeting the required cost sharing."

However, a December 2011 PSI financial report stated its cost-sharing requirement for this program as $14.3 million, when the requirement had been increased to $15.6 million by an August 2008 agreement modification. Although the AOR reported that she reviewed PSI's financial reports each quarter, she did not detect this discrepancy.

No reason was given for the oversight. If it had not been detected by the audit and if PSI had failed to meet its full cost-sharing requirement by the end of the award, an additional $1.3 million intended to further program objectives might not have been expended. To help avoid similar oversights, the audit makes the following recommendation.

> ***Recommendation 6.*** *We recommend that USAID/Kenya remind agreement officers and agreement officer's representatives, in writing, of their responsibility to monitor recipients' financial reports to ensure that each recipient makes progress toward meeting the cost-sharing requirement.*

USAID/Kenya Officials Did Not Detect Unreasonable Costs. According to Office of Management and Budget Circular No. A-122, Attachment A, paragraph A.2.a, to be allowable, costs under a federal award must "be reasonable for the performance of the award." Paragraph A.3 states, "A cost is reasonable if, in its nature or amount, it does not exceed that which would be incurred by a prudent person under the circumstances prevailing at the time the decision was made to incur the costs." In determining reasonableness, paragraph A.3.c states that consideration should be given to whether individuals acted prudently considering their responsibilities to a variety of interested parties, including "clients, the public at large, and the Federal Government."

In fiscal year 2011, actual net distribution costs were $293,000 below budget. Despite the requirements of Circular A-122 to consider its responsibilities to its stakeholders, PSI did not pass those savings along to the U.S. taxpayer or redirect them to additional malaria prevention efforts benefiting the Kenyan people. Instead, PSI reallocated the cost savings to a common cost category used to cover expenses such as rent, utilities, and office supplies that were already adequately budgeted.

USAID/Kenya officials stated that they expect implementing partners to use obligated funds for their intended purposes, unless partners inform them otherwise. In this case, PSI did not notify the mission of the cost savings, and thus neither the agreement officer nor the AOR knew how those savings were reallocated. However, mission officials also noted that they have not exercised their right to limit the transfer of funds between direct cost categories. Instead, USAID/Kenya let PSI determine how to allocate costs among USAID and other donors, and PSI treated all donor funds as a single pool of resources—meaning it could shift resources as needed to cover costs. (Because of the missing file discussed on page 9, the mission's reason for allowing this arrangement is not known.)

Given PSI's responsibility to its Kenyan clients, the U.S. Government, and the public, using $293,000 in cost savings to fund administrative expenses already budgeted for was not reasonable under Circular A-122. Moreover, as a tax-exempt entity under Section 501(c)(3) of the Internal Revenue Code, PSI should have been acutely aware of its responsibilities to U.S. taxpayers. As a result, $293,000 in U.S. Government funds was wasted. Therefore, the audit makes the following recommendation.

Recommendation 7. *We recommend that USAID/Kenya determine the allowability of $293,000 in ineligible questioned costs stemming from Population Services International's reallocation of cost savings from net distribution activities, and recover from Population Services International any amounts determined to be unallowable.*

USAID/Kenya Has Not Marked Drugs to Deter Theft

On the recommendation of the Kenya Ministry of Medical Services, commodities procured by KEMSA are marked to the smallest applicable unit to deter theft; general practice is to mark the commodities "GoK [Government of Kenya] – MoH [Ministries of Health] – NOT FOR SALE." KEMSA's chief executive officer requested that USAID-funded commodities, including ACTs, be similarly marked.

However, ACTs procured by JSI using PMI funds are not marked to deter theft. Besides the batch number, there is little to distinguish PMI-funded ACTs from many ACTs commercially available in Kenyan shops, as illustrated below.

On the left, PMI-funded ACTs are ready for distribution to patients at a Nyanza Province hospital. On the right, ACTs are for sale in a Nyanza Province shop. (Photos by RIG/Pretoria, January 2012)

Although USAID/Kenya discussed the marking of ACTs procured for Kenya with JSI's DELIVER PROJECT, JSI officials were not receptive. These officials noted that marking would increase the cost (although a cost estimate was not given) and limit the flexibility that the mission would have in its procurement requests, since country-specific requirements hamper the manufacturer's ability to shift production schedules and split batches of ACTs. Based on this discussion, USAID/Kenya did not pursue the matter further.

Since PMI-funded ACTs are not marked to deter theft, they are more susceptible to theft than Global Fund-purchased drugs, which do sport "GoK – MoH – NOT FOR SALE" markings (as shown on the next page). Further, it is less likely that thefts of PMI-funded ACTs will be detected, because Kenyan Government inspectors are trained to look for markings and do not detect stolen ACTs using batch numbers.

On the left, ACTs purchased by the Global Fund are marked to deter theft, while on the right, PMI-funded ACTs are not. (Photo by RIG/Pretoria, January 2012)

To ensure that USAID/Kenya appropriately considers KEMSA's request to mark PMI-funded ACTs to deter theft, the audit makes the following recommendations.

Recommendation 8. *We recommend that USAID/Kenya, in conjunction with USAID/Washington, obtain a cost estimate for the additional marking of artemisinin-based combination therapies and determine, in conjunction with the Division of Malaria Control and the Kenya Medical Supplies Agency, whether marking these commodities would seriously deplete funding for or otherwise interfere with the effective treatment of malaria.*

Recommendation 9. *We recommend that USAID/Kenya, if the Division of Malaria Control and the Kenya Medical Supplies Agency agree, mark artemisinin-based combination therapies to deter theft.*

USAID/Kenya Misstated Annual Results

The Government Performance and Results Act of 1993 emphasizes accountability and transparency in agency and program performance. To help meet these goals, all USAID operating units, such as overseas missions, must report their results achieved during the fiscal year to the State Department's Office of U.S. Foreign Assistance Resources. This information is used to help inform budget decisions, respond to congressional inquiries, prepare speeches and testimonies, define best practices, and construct special reports.

As shown in the following table, USAID/Kenya reported exceeding targets for its four commodity-related PMI indicators in fiscal year 2011. However, supporting documentation revealed that far fewer ACTs and rapid diagnostic tests were distributed during the fiscal year, fewer nets were purchased, and more nets were distributed.

USAID/Kenya Fiscal Year 2011 Results on Malaria Commodity Indicators

Indicator	Target	Reported Result	Actual Result
Number of ACTs purchased and distributed through U.S. Government support	5.8 million	6.9 million	3.3 million*
Number of nets purchased with U.S. Government funds	2 million	2.7 million	2.2 million*
Number of nets distributed or sold with U.S. Government funds	2 million	2.7 million	3 million*
Number of rapid diagnostic tests purchased and distributed through U.S. Government support	500,000	547,000	292,040

*Audited

USAID/Kenya misreported results because officials who prepared and reviewed the report used the wrong supporting documentation. According to mission officials, in some cases this mistake occurred because the indicator definitions were easily misunderstood. For example, the indicators measuring the purchase and distribution of ACTs and rapid diagnostic tests are intended to reflect the number of ACTs and tests distributed to beneficiaries. These results should have come from distribution reports generated by KEMSA, but instead were based on the procurement requests accepted by JSI. Use of the procurement records was problematic because significant portions of these commodities had not yet arrived in Kenya and were not scheduled for distribution until fiscal year 2012. Similarly, the mission used procurement records from JSI to report the number of nets distributed, although it should have used PSI distribution records. In fiscal year 2011, PSI distributed nets purchased in fiscal year 2010, so the mission understated this amount. Further, the mission included 455,000 nets that arrived in September 2010 in its fiscal year 2011 results for the number of nets purchased, when these should have been counted in fiscal year 2010.

Enabling some of these mistakes was the performance management plan created by the mission's Office of Population and Health, which incorrectly defined indicators and their data sources. For example, the indicator *Number of ACTs purchased and distributed through U.S. Government support* was improperly written in the plan as *Number of ACTs purchased through U.S. Government support*, which has a different meaning. The indicator for the purchase and distribution of rapid diagnostic tests was properly stated, but the plan incorrectly listed JSI as the source for this information. JSI is only responsible for the procurement of commodities and therefore does not have data that will show the number of tests distributed.

Because of these errors, USAID/Kenya's results from fiscal years 2010 and 2011 were misstated; if these errors are not corrected, the mission's fiscal year 2012 results will be misstated. Results reported by the Agency and the U.S. Government will be similarly affected. As a result, those responsible for budgetary and programmatic decisions, like Congress, are relying on inaccurate information. To ensure these results are corrected and to prevent future reporting errors, the audit makes the following recommendations.

Recommendation 10. *We recommend that USAID/Kenya notify the Office of U.S. Foreign Assistance Resources, in writing, of the misreported results for malaria-related commodity indicators in fiscal years 2010 and 2011.*

Recommendation 11. *We recommend that USAID/Kenya update the Office of Population and Health's performance management plan to include the same indicators reported to the Office of U.S. Foreign Assistance Resources for the President's Malaria Initiative, and add the appropriate data sources.*

USAID/Kenya's Branding and Marking Efforts Were Not Effective

Ensuring that the American people are recognized appropriately for their generosity in funding U.S. foreign assistance has been a long-standing U.S. Government objective. For example, Section 641 of USAID's framework legislation, the Foreign Assistance Act of 1961, codified as amended in 22 U.S.C. 2401, specifies that all programs under the act be identified appropriately as "American Aid." More recently, the United States' post-September 11 National Security Strategy increased the need for U.S. foreign assistance activities to be identified clearly in partner countries as provided by the United States. ADS 320, authorized by the above legislation, guides the Agency's branding and marking activities to help achieve these objectives.

USAID/Kenya and its PMI implementing partners have complied with the ADS 320 requirement that a branding and marking plan be implemented for each assistance activity. Nonetheless, beneficiaries and even Kenyan health facility employees were mostly unaware that USAID was funding a portion of the nets and ACTs distributed in their communities. Those interviewed during the audit were largely unaware who paid for commodities, but when pressed said they assumed that it was the Kenyan Government supplying them. Others believed that nets were donated by PSI, the implementing partner funded by USAID for net distribution.

Because USAID/Kenya uses Kenyan systems to distribute PMI-funded commodities to beneficiaries, the conventional USAID branding and marking practices were not effective. For example, ACTs, which are not branded with the USAID logo, are distributed by employees at government-funded facilities. The nets distributed via both routine and mass distributions are branded, on their outer packaging, with the USAID logo. However, the outer packaging is discarded soon after the beneficiary collects the net.

While cost and use of partner-country systems are important, a key objective of U.S. foreign assistance activities is overseas recognition. Officials from USAID/Kenya echoed this, saying that recognition for U.S. Government contributions in Kenya is critical. Because that recognition is not currently being achieved, the audit makes the following recommendation.

Recommendation 12. *We recommend that USAID/Kenya determine and document its objectives for identifying goods and services provided under Kenya's President's Malaria Initiative as American aid and update its communication strategies, including current branding and marking plans, if they do not currently achieve those objectives.*

EVALUATION OF MANAGEMENT COMMENTS

In its comments on the draft report and in subsequent discussions, USAID/Kenya agreed with all 12 recommendations. Management decisions have been reached on all 12 recommendations, and final action has been taken on 8 of them. Our detailed evaluation of management comments follows.

Recommendation 1. USAID/Kenya agreed to develop an implementation letter under its development assistance grant agreement to address the issues identified. The target date for completion of this action is December 31, 2012. Therefore, a management decision has been made on this recommendation.

Recommendation 2. On May 31, 2012, USAID/Kenya issued a reminder to mission staff on the policies for removing official files from and returning them to the designated storage areas. As a result, a management decision has been reached, and final action has been taken on Recommendation 2.

Recommendation 3. USAID/Kenya agreed to update its mission order on performance monitoring to give specific guidance on monitoring programs outside of one's technical program team. The target date for completion of this action is December 31, 2012. Therefore, a management decision has been made on this recommendation.

Recommendation 4. On June 5, 2012, USAID/Kenya issued a reminder to AORs of their responsibility to review and approve programs' annual work plans in accordance with the terms of each agreement. As a result, a management decision has been reached, and final action has been taken on Recommendation 4.

Recommendation 5. On June 5, 2012, USAID/Kenya issued a reminder to AORs of their responsibility to monitor recipients' performance reports in accordance with the terms of the agreement. As a result, a management decision has been reached, and final action has been taken on Recommendation 5.

Recommendation 6. On June 5, 2012, USAID/Kenya issued a reminder to agreement officers and AORs on their responsibility to monitor recipients' financial reports to ensure that the recipient makes progress toward meeting required cost-sharing requirements. As a result, a management decision has been reached, and final action has been taken on Recommendation 6.

Recommendation 7. The USAID/Kenya agreement officer determined that $293,000 in questioned ineligible costs were allowable, on the basis of new information provided by the implementing partner. Therefore, a management decision has been reached, and final action has been taken on Recommendation 7.

Recommendations 8 and 9. USAID/Kenya agreed with the recommendations and confirmed that USAID/Washington has reached an agreement with the Agency's supplier to mark future

ACTs as not for sale. Therefore, a management decision has been reached, and final action has been taken on Recommendations 8 and 9.

Recommendation 10. On June 12, 2012, USAID/Kenya notified the Office of U.S. Foreign Assistance Resources of the corrections to its fiscal years 2010 and 2011 indicators for malaria commodities. As a result, a management decision has been reached, and final action has been taken on Recommendation 10.

Recommendation 11. USAID/Kenya has agreed to standardize and update PMI indicator definitions, data collection methods, and data sources to match the indicators reported to the Office of U.S. Foreign Assistance Resources. The mission has contracted with an independent team for this exercise and set a target completion date of December 31, 2012. Therefore, a management decision has been made on this recommendation.

Recommendation 12. USAID/Kenya agreed to document its specific objectives for branding and marking and update its communication strategies, including those documented in the mission's branding and marking plans, as needed. The target date for completion of this action is December 31, 2012. Therefore, a management decision has been made on this recommendation.

SCOPE AND METHODOLOGY

Scope

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

The objective of the audit was to determine whether USAID/Kenya's PMI-funded commodities were reaching their intended beneficiaries. Audit fieldwork was conducted from January 17 to February 10, 2012.

In planning and performing the audit, we assessed USAID/Kenya's internal controls. We reviewed and inquired about the mission's reporting for the Federal Managers' Financial Integrity Act of 1982,[8] which provided detail on the mission's administrative management, financial management, programming, and general controls. We also obtained an understanding of and evaluated the mission's organizational structure and its processes for making awards, monitoring and evaluating, and reporting. This included obtaining and reviewing documentation to support program solicitation and procurement, the designation of the AORs, the completion of data quality assessments, the performance of site visits, the documentation of meetings held with implementing partners, the submission of periodic performance reports, and the scheduling and completion of program evaluations.

We focused our audit on the procurement and distribution of nets and ACTs, as these commodities made up 85 percent of the value of PMI-funded commodities that the mission planned to procure in fiscal year 2011 ($20.5 million of $24 million). USAID/Kenya reports its results for these activities through the following indicators: *Number of ACTs purchased and distributed through U.S. Government Support*; *Number of insecticide-treated nets purchased with U.S. Government funds*; and *Number of insecticide-treated nets distributed or sold with U.S. Government funds*. Commodities procured by USAID/Kenya not included in the scope of our audit are rapid diagnostic tests ($500,000), microscopes ($300,000), and supplies used for indoor residual spraying ($2.7 million).

USAID/Kenya procures commodities through JSI's DELIVER PROJECT. It also funds three other programs that affect supply chains for ACTs and nets: PSI's Health Communication and Marketing Project, MSH's Health Commodities and Services Management Program in Kenya, and Deloitte Consulting's KEMSA Support Program. The audit included a review of each of these three programs. As of January 23, 2012, USAID had obligated $61.4 million and disbursed $48.7 million to these three programs. Of these amounts, $8.7 million of the obligations and $7.9 million of the disbursements came from funds designated for malaria activities.

We conducted fieldwork in Nairobi, where we interviewed key personnel at USAID/Kenya, implementing partners' head offices, the Division of Malaria Control, and KEMSA. Implementing

[8] Public Law 97-255 codified in 31 U.S.C. 3512.

partners interviewed in Nairobi included officials from PSI, MSH, and Deloitte Consulting. We also conducted site visits at the central PSI warehouse and the KEMSA distribution warehouse. Officials from JSI located in the United States were interviewed via teleconference.

Kenya has more than 5,000 public health facilities spread across eight provinces. Because of limited resources, it was not feasible for the audit team to visit all health facilities that would have been selected in a statistical sample.[9] Consequently, we designed our site visit procedures to include the Kenyan provinces that reported the highest prevalence of malaria and therefore received the highest quantities of PMI-funded commodities. These included Western, Nyanza, and portions of Coast Provinces. In each province, we judgmentally selected facilities according to the quantity of commodities KEMSA reported delivering since the start of fiscal year 2011 and the size of the facility (recorded in the table on the following page). Substitutions were made for facilities that the audit team learned were located in insecure areas.

[9] For example, to test a statistical sample of the 3,195 facilities that received PMI-funded ACTs (with a 90 percent confidence level, 5 percent error rate, and 4 percent variation rate), the audit team would have needed to visit 49 randomly selected facilities, which might have required extensive travel throughout Kenya and might have included sites that could not be visited because of security restrictions.

Facilities Visited

Province	Facility	ACT Treatments Delivered	Nets Received for Routine Distribution	Nets Received for Mass Distribution
Nyanza	Kisii Level V Hospital	3,840	0	21,960
	Entanda Dispensary	2,760	0	14,200
	Keumbu Subdistrict Hospital	3,810	0	9,800
	Nyando District Hospital	1,200	0	0
	Bunde Dispensary	2,760	0	0
	Bonde Dispensary	2,760	0	0
Western	Mechimeru Health Centre	2,940	720	0
	Bungoma District Hospital	4,020	2,520	0
	Bumala "A" Health Centre	2,640	200	0
	Vihiga District Hospital	8,310	600	44,440
	Sabatia Health Centre	2,670	1,200	32,080
	Munoywa Dispensary*	2,670	0	0
	Navakholo Subdistrict Hospital	4,140	280	0
Coast	Bokole Dispensary	1,260	640	0
	Holy Ghost Catholic Dispensary	1,830	0	0
	Moi Airport Dispensary	1,170	0	0
	Kwale District Hospital	690	0	0
	Msambweni District Hospital	2,100	1,120	0
	Kinango District Hospital	1,890	0	0
	Malindi District Hospital	2,610	0	0
	Mariakani District Hospital	2,280	0	0
	Fundi Issa Dispensary	1,320	0	0
	Port Reitz District Hospital	510†	0	0
	Total	**60,090**	**7,280**	**122,480**
Audit Universe‡		**3,513,930**	**696,880**	**2,632,470**
Audit Coverage (Percent)		**1.7**	**1**	**4.7**

* The audit team originally planned to visit Sivilie Dispensary, but visited Munoywa Dispensary instead because of indications that this facility had experienced problems with the delivery of ACTs in March 2011.

† The audit team's original plans did not include a visit to this facility, but because time permitted, the audit team visited this facility to focus on deliveries of PMI-funded treatments made in March 2011, which totaled 510. In total, KEMSA reports that Port Reitz District Hospital received 1,290 PMI-funded treatments.

‡ The audit universe for ACTs covers the period October 1, 2010, through December 31, 2011; routine net distributions cover January 2009 through November 2011; and mass net distributions cover October 2010 through September 2011.

Methodology

To answer the audit objective, we first reviewed applicable laws, best practices, and guidelines. Specifically, we reviewed the Tom Lantos and Henry J. Hyde United States Global Leadership Against HIV/AIDS, Tuberculosis, and Malaria Reauthorization Act of 2008 (Public Law 110-293); and USAID's ADS chapters (ADS 201, "Planning"; ADS 202, "Achieving"; ADS 203, "Assessing and Learning"; ADS 302, "USAID Direct Contracting"; ADS 303, "Grants and Cooperative Agreements with Non-Governmental Organizations"; and ADS 320, "Branding and Marking").

We then inquired about the value of PMI-funded commodities procured by USAID/Kenya and selected ACTs and nets for review, based on the dollar amounts spent on these commodities. We then worked with USAID/Kenya to identify the programs that affect the supply chains for ACTs and nets.

At USAID/Kenya, we met with officials responsible for PMI commodities. As applicable, we interviewed the team leaders, agreement officers, AORs, contracting officers, contracting officer's representatives, activity managers, and officials from the program, controller, and regional legal offices. We conducted these meetings to assess mission personnel's knowledge and implementation of PMI and USAID guidance and requirements, and their general familiarity with PMI activities. We reviewed documentation provided by USAID/Kenya, such as contract and agreement documents, work plans, and performance reports, to determine the extent to which planned results were being achieved. Testimonial evidence was evaluated in conjunction with other interviews, available documentation, and site visits.

Nets. PSI's Health Communication and Marketing Project was funded by USAID/Kenya for the routine and mass distributions of nets. The program procured its nets from JSI's DELIVER PROJECT. In conjunction with documentation reviews, we met with officials from these implementing partners to assess their knowledge and implementation of PMI and USAID guidance and requirements.

To assess the net procurement process, we first obtained the fiscal year 2011 procurement requests that indicated the quantity of nets ordered from JSI. We matched these records to invoices and signed proof of delivery documents, indicating that nets had been received by PSI in Kenya according to the specifications in the request. We also toured PSI's Nairobi warehouse to assess inventory procedures and storage conditions and compare inventory records with nets on hand.

To assess the routine distribution of nets, we obtained a schedule of the nets distributed in fiscal year 2011 from PSI. Then, at the facilities we visited, we attempted to review copies of the signed delivery notes (which indicate that the facility received the nets from PSI), evidence that the nets were entered into the facility's inventory, and registers showing that the nets were distributed to beneficiaries.

To assess the mass distribution of nets, we obtained a schedule of the nets distributed in fiscal year 2011 from PSI. Then, at the facilities we visited, we attempted to review copies of the signed delivery notes (which indicate that the facility received the nets from PSI), records showing that the district distributed the nets from the facility to storage locations and distribution sites, and registers and voucher stubs showing that the nets were distributed to beneficiaries.

We also interviewed health facility employees, officials from the Ministries of Health, and community health workers to assess the distribution processes and net usage.

ACTs. USAID/Kenya procures ACTs through JSI's DELIVER PROJECT. In conjunction with documentation reviews, we conducted a teleconference with officials from this implementing partner to assess their knowledge and implementation of PMI and USAID guidance and requirements.

To assess the ACT procurement process, we first obtained the fiscal year 2011 procurement requests that indicated the quantity of ACTs ordered from JSI. We attempted to match these records to invoices and signed proof of delivery documents, indicating that ordered ACTs had

been received by KEMSA. We toured KEMSA's distribution warehouse to assess storage conditions and compare inventory records with treatments on hand.

Additionally, though Deloitte Consulting does not have direct responsibility for the procurement or distribution of ACTs with the KEMSA Support Program, USAID has contracted this partner to strengthen KEMSA's supply chain. Therefore, we also met with Deloitte Consulting officials to assess their knowledge and implementation of PMI and USAID guidance and requirements. We also interviewed KEMSA officials to assess the effectiveness of this program's activities.

To assess the distribution of ACTs, we obtained from KEMSA a schedule of PMI-funded ACTs distributed between October 1, 2010, and December 31, 2011. At the facilities we visited, we attempted to review copies of the signed delivery notes (which indicate that the facility received the ACTs), evidence that that ACTs were entered into the facilities' inventory, and dispensing books showing that the ACTs were dispensed to patients. We also assessed the facilities' storage conditions and did physical counts of ACTs in stock, which we compared with inventory records. We interviewed health facility employees and officials from the Ministries of Health to assess the distribution process. We also visited two private pharmacies to inquire about ACT prices and ensure that PMI-funded commodities were not for sale there.

Lastly, we met with officials from MSH's Health Commodities and Services Management Program in Kenya to assess their knowledge and implementation of PMI and USAID guidance and requirements. This program is funded by USAID to address commodity management, pharmaceutical services and policy, and laboratory systems in Kenya's Ministries of Health. We also interviewed officials with the Division of Malaria Control, KEMSA, and the Ministries of Health, along with health facility employees, to assess the effectiveness of this program's activities.

Given the nature of the audit, no materiality thresholds were established. Additionally, since programs and site visits were selected judgmentally, results cannot be projected to the purchase and distribution of all PMI-funded commodities. Nonetheless, we believe evidence gathered during fieldwork provided a reasonable basis for our findings and conclusions.

MANAGEMENT COMMENTS

DATE: 15 June 2012

FROM: Erna Kerst, Mission Director, USAID/Kenya /s/

TO: Christine M. Byrne

SUBJECT: Audit of Commodities Funded Under the President's Malaria Initiative (PMI) Kenya (Audit Report No. 4-615-12-XXX-P Month XX, 2012)

The USAID/Kenya Mission would like to thank the Regional Inspector General Office for undertaking the audit on PMI commodities in Kenya whose objective was to "determine if PMI procured commodities are reaching their intended beneficiaries". USAID/Kenya has been working closely with the Government of Kenya to strengthen the health care system for improved service delivery and the audit on PMI commodities and inputs provided will assist USAID/Kenya make further improvements in the management of the program. However, we request that the following section on page 3 *"USAID/Kenya 's management of PSI's Health Communication and Marketing Project was inadequate. In addition to losing an award file, the mission also failed to adequately review documentation submitted by the implementing partner. This undermined the purpose of performance monitoring and led to questioned costs (Page* 9)." of the audit report be modified in line with additional information provided in response to recommendation number seven on questioned costs.

This memorandum also transmits USAID/Kenya's management comments on twelve recommendations contained in the subject audit report in accordance with ADS 595.3.1.2. USAID/Kenya has reached final action on eight of the twelve recommendations, and requests RIG/P to close these recommendations upon issuance of the final audit report. In addition, USAID/Kenya will take final action on the remaining six recommendations by December 31, 2012.

Recommendation 1: "We recommend that USAID/Kenya coordinate with the Government of Kenya and issue a jointly agreed-upon implementation letter under its development assistance grant agreement to (1) define and record the minimum standards acceptable for the treatment of and accounting for commodities funded by the President's Malaria Initiative and distributed through partner country systems; (2) confirm and record the Government of Kenya's commitment as a partner in the strengthening of those systems; and (3) specify the rights and responsibilities of the parties if minimum standards are not adhered to ."

U.S. Agency for International Development
USAID Kenya
P.O. Box 629
Village Market 00621
Nairobi, Kenya

Courier Address:
USAID/Kenya
c/o American Embassy
United Nations Avenue,
Gigiri,
Nairobi, Kenya

U.S. Postal Address:
USAID Kenya
Unit 64102
APO AE 09831-4102

Tel: 254-20-862 2000
Fax: 254-20-862 2680 / 2682
http://kenya.usaid.gov

Management Response: Mission agrees with the recommendation. The USAID/Kenya Mission in consultation with the Government of Kenya will develop an implementation letter under its development assistance grant agreement which will address issues (1), (2) and (3) in the above recommendation. The target date for completion of this action is December 31, 2012.

Recommendation 2: "We recommend that USAID/Kenya, in conjunction with USAID/East Africa, remind mission staff, in writing, of their responsibility to document the removal of any official award files from their designated storage location and to return those files when no longer needed."

Management Response: Mission agrees with the recommendation. On May 31, 2012 the Director, Regional Acquisition and Assistance Office (RAAO), reminded RAAO staff on the policies of removal and return of official files from and to the designated storage areas (Attachment 1a & 1b). USAID/K has reached final action on this recommendation.

Recommendation 3: "We recommend that USAID/Kenya update its performance monitoring mission order to give specific guidance on monitoring programs outside of one's technical program team."

Management Response: Mission agrees with this recommendation. The Mission has updated Performance and Monitoring mission order that gives guidance on monitoring programs outside one's technical program team. With a target completion date of December 2012, the mission order is under review and clearance by relevant office directors.

Recommendation 4: "We recommend that USAID/Kenya remind agreement officer's representatives, in writing, of their responsibility to review and approve programs' annual work plans in accordance with the terms of the agreement."

Recommendation 5: "We recommend that USAID/Kenya remind agreement officer's representatives, in writing, of their responsibility to monitor recipients' performance reports in accordance with the terms of the agreement."

Recommendation 6: "We recommend that USAID/Kenya remind agreement officers and agreement officer's representatives, in writing, of their responsibility to monitor recipients' financial reports to ensure that the recipient makes progress toward meeting the required cost sharing."

Management Response on Recommendations 4, 5, and 6: Mission agrees with these recommendations. In the memo (Attachment 2a), dated May 29, 2012 the Director, Regional Acquisition and Assistance Office (RAAO), has reminded:

1. Agreement officer's representatives (AORs) of their responsibility to review and approve programs' annual work plans in accordance with the terms of the agreement
2. AORs of their responsibility to monitor recipients' performance reports in accordance with the terms of the agreement, and

3. The agreement officer's (AOs) and AORs of their responsibility to monitor recipients' financial reports to ensure that the recipient makes progress toward meeting required cost sharing. In addition, the AO has conducted three AOR/COR refresher workshops on monitoring financial reports from recipients (Attachment 2b, attendance sign sheets).

The RAAO office circulated the memo to the AOs and AORs via email on June 5, 2012 (Attachment 2c). USAID/Kenya has thus reached final action on recommendations 4, 5 and 6.

Recommendation 7: "We recommend that USAlD/Kenya determine the allowability of $293,000 in ineligible questioned costs stemming from Population Services International's reallocation of cost savings from net distribution activities, and recover from Population Services International any amounts determined to be unallowable."

Management Response: USAlD/Kenya has determined that the $293,000 in ineligible questioned costs is allowable. On May 29, 2012, the USAID Agreement Officer requested PSI to provide an explanation showing the amount of any cost savings realized in the distribution of insecticide treated nets in fiscal year 2011. PSI was also to explain how any resultant cost savings was reallocated. PST responded on June 3, 2012 with a detailed explanation and expenditure breakdown of the actual costs incurred in the distribution of insecticide treated nets for fiscal year 2011. After reviewing in detail its actual expenditures, PSI reported that the actual costs for net distribution for FY 2011 totaled $2,501,779, which was slightly higher than the $2,500,000 that had been initially budgeted for. USAID recognizes that this information differs from the estimated amounts provided to the OIG audit team during the review period.

Based on PSI's analysis of actual expenditures, the AO has determined that no cost savings was realized in the distribution of nets in FY2011 and that the reported actual expenditures are allowable and reasonable. USAID/Kenya has reached final action on this recommendation.

Recommendation 8: "We recommend that USAID/Kenya, in conjunction with USAID/Washington, obtain a cost estimate for the additional marking of artemisinin-based combination therapy and determine, in conjunction with the Division of Malaria Control and the Kenya Medical Supplies Agency, if the marking of these commodities is cost or otherwise prohibitive to the effective treatment of malaria."

Recommendation 9: "We recommend that USAID/Kenya, if agreed upon with the Division of Malaria Control and the Kenya Medical Supplies Agency, mark artemisinin-based combination therapy to deter theft."

Management Response on Recommendations 8 and 9: Mission agrees with these recommendations. USAID Washington has agreed on how Novartis should mark coartem blisters "Not for retail sale" in both English and French. The marking on blister packages is to be effected in the near future. (See attachment 3, email communications with Novartis). USAID/Kenya has reached final action on recommendations 8 and 9.

Recommendation 10: "We recommend that USAID/Kenya notify the Office of U.S. Foreign Assistance Resources, in writing, of the misreported results for malaria-related commodities indicators in fiscal years 2010 and 2011."

Management Response: Mission agrees with the recommendation. Mission has corrected the malaria indicators reported for fiscal years 2010 and 2011, and notified the Office of U.S. Foreign Assistance Resources of the corrections via memo dated June 5, 2012 (Attachment 3a). Mission forwarded the memo via email dated June 12, 2012, (Attachment 3b). USAID/Kenya has reached final action on this recommendation.

Recommendation 11: "We recommend that USAID/Kenya update the Office of Population and Health's performance management plan to reflect the same indicators reported to the Office of U.S. Foreign Assistance Resources for the President's Malaria Initiative, and add the appropriate data sources."

Management Response: The Mission agrees with the recommendation. The Mission has contracted a team of independent Performance Management Plan/Monitoring and Evaluation (PMP/M&E) strategy/ Data Quality Audit (DQA) experts to review and update all the Office of Population and Health's required performance indicators on the PMP. This will include a review and update of all PMI indicators to standardize the indicator definitions, data collection methods and their respective data sources to reflect the same indicators reported to the Office of U.S. Foreign Assistance Resources for the President's Malaria Initiative. The DQA expert will further conduct a comprehensive DQA on PMI indicators and report on all data quality limitations for corrective action by the mission. This process will ensure that in future all data reported to the Office of U.S. Foreign Assistance Resources for PMI will be complete, reliable and valid. The target date for completion of this action is December 31, 2012.

Recommendation 12: "We recommend that USAID/Kenya determine and document, in writing, its specific objectives for identifying activities within Kenya's President's Malaria Initiative portfolio as American Aid and update its communication strategies, including current branding and marking plans, if they do not currently achieve those objectives."

Management Response: The Mission agrees with this recommendation. As the audit report points out on page 16, USAID/Kenya and its PMI implementing partners have complied with the ADS 320 requirement that a branding and marking plan be developed and implemented for each assistance activity. Nonetheless, beneficiaries, and even Kenyan health facility employees, were mostly unaware that USAID was funding a portion of the nets and ACT treatments distributed in their communities. To address this issue, the mission will document the Missions specific objectives for branding and marking and appropriately update the communication strategies. Should the current branding and marking plans for PMI implementing partners not meet these objectives, USAID/Kenya will update the branding and marking plans. The target date for completion of this action is December 31, 2012.

Summary: USAID/Kenya has reached final action on recommendations 2,4,5,6,7,8,9 and 10 and reached management decisions on recommendations 1,3,11 and 12.

Summary of Weaknesses Identified in Health Facility Records on Artemisinin-Based Combination Therapies

Province	Facility	Inadequate Receiving Records	Inadequate Inventory Records	Inadequate Dispensing Records
Nyanza	Kisii Level V Hospital		X[1,2]	
	Entanda Dispensary		X[1,2]	
	Nyando District Hospital			X[3]
	Bunde Dispensary		X[4]	
Western	Mechimeru Health Centre		X[1]	
	Bungoma District Hospital			X[5]
	Bumala "A" Health Centre		X[2]	
	Vihiga District Hospital		X[4,6]	
	Sabatia Health Centre	X[7]		
	Munoywa Dispensary	X[7]	X[1]	
	Navakholo Subdistrict Hospital		X[6]	
Coast	Holy Ghost Catholic Dispensary		X[1]	X[3]
	Kwale District Hospital		X[2,6]	
	Msambweni District Hospital		X[1,2]	X[8]
	Kinango District Hospital		X[1,2]	
	Malindi District Hospital			X[3]
	Mariakani District Hospital	X[7]	X[1,2]	
	Fundi Issa Dispensary		X[2]	X[8]

[1] Facility could not locate current or past inventory records, or those records did not reflect accurate entries into inventory for deliveries that had been received.
[2] Facility's inventory records did not agree with physical counts performed by the audit team of ACTs in stock.
[3] Facility did not have ACT dispensing records available for the audit team's review.
[4] Facility's inventory records showed that ACTs had been given to nonpatients, and authorizing documentation was not kept.
[5] We noted an error in the ACT dispensing record that made it appear as if more ACTs had been dispensed than actually were.
[6] Facility's inventory records showed that physical stock counts performed by the facility adjusted ACT stock levels up or down significantly, without adequate explanations for what had occurred.
[7] Facility staff members had modified the quantities of ACTs received on their copy of a KEMSA delivery note after the delivery note was signed. Evidence that the health facilities had reported these discrepancies—either to KEMSA, health facility supervisors, or district supervisors—was missing.
[8] Facility's dispensing records indicated that multiple doses of ACTs had been dispensed to the same patient on the same date, an occurrence that either could not be explained or was explained by facility staff as a mistake.

Comparison of Fiscal Year 2011 Targets for the Health Communication and Marketing Project

Indicator	USAID/Kenya Malaria Operational Plan	PSI Performance Monitoring Plan	PSI Annual Work Plan	PSI Quarterly Reports
Number of nets for routine distribution	2.5 million	Undefined	377,000	377,000
				338,000
				56,000
				56,000
Number of nets for mass distribution		Undefined	1.5 million	1.5 million
				1.5 million
				2.7 million
				2.7 million
Expand community-based behavior change interventions	Not applicable	Undefined	Undefined	Undefined
				8 districts; 500 mobilizers; 825,000 caregivers
				8 districts; 500 mobilizers; 687,500 caregivers
				8 districts; 500 mobilizers; 687,500 caregivers
Facilitate development and production of health provider materials	Not applicable	Undefined	Undefined	Undefined
				Undefined
				Undefined
				Undefined
Assist with mass distribution campaign evaluation	Not applicable	Undefined	Complete by Quarter 4	Complete by Quarter 4
				Complete by Quarter 4
				Complete by Quarter 4
				Partially complete by Quarter 1, 2012
Facilitate funding of Division of Malaria Control's annual work plan	Not applicable	Undefined	Complete annual work plan in Quarter 1 & quarterly status reports	Complete annual work plan in Quarter 1 and quarterly status reports
				Complete annual work plan in Quarter 1 and quarterly status reports
				Complete annual work plan in Quarter 1 and quarterly status reports
				Complete annual work plan in Quarter 1 and quarterly status reports
Facilitate Peace Corps behavior change interventions	Not applicable	Undefined	Monthly meetings	Monthly meetings
				Monthly meetings
				Monthly meetings; train 3 community-based organizations; conduct 1,080 sessions
				Monthly meetings; train 3 community-based organizations; conduct 1,080 sessions

U.S. Agency for International Development
Office of Inspector General
1300 Pennsylvania Avenue, NW
Washington, DC 20523
Tel: 202-712-1150
Fax: 202-216-3047
www.usaid.gov/oig