



## **OFFICE OF INSPECTOR GENERAL**

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# **AUDIT OF USAID-FUNDED NET DISTRIBUTION ACTIVITIES IMPLEMENTED BY MENNONITE ECONOMIC DEVELOPMENT ASSOCIATES IN TANZANIA**

AUDIT REPORT NO. 4-621-13-003-P  
NOVEMBER 15, 2012

PRETORIA, SOUTH AFRICA



*Office of Inspector General*

November 15, 2012

**MEMORANDUM**

**TO:** USAID/Tanzania Mission Director, Robert Cunnane

**FROM:** Regional Inspector General/Pretoria, Robert W. Mason /s/

**SUBJECT:** Audit of USAID-Funded Net Distribution Activities Implemented by Mennonite Economic Development Associates in Tanzania (Report No. 4-621-13-003-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 (without attachments) in Appendix II.

The report includes nine recommendations to strengthen USAID/Tanzania's net distribution activities. We acknowledge that management decisions have been reached on Recommendations 1, 2, 3, 8, and 9. Final action has been taken on Recommendation 2. In accordance with ADS 595.3.1.2, management decisions on Recommendations 4, 5, 6, and 7 cannot be reached until the agreement officer specifies the amount of questioned costs (currently \$35,391 ineligible) allowed and/or disallowed and a target date for collection of any disallowed costs. Please have the responsible official provide us with written notice within 30 days on actions planned or taken regarding Recommendations 4, 5, 6, and 7. Please also provide the Office of Audit Performance and Compliance Division with the necessary documentation to achieve final action on Recommendations 1, 3, 8, and 9. Recommendation 2 is closed upon report issuance.

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

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## Abbreviations

The following abbreviations appear in this report:

ADS	Automated Directives System
AMCC	Achievement and Maintenance of Comprehensive Coverage of Long-Lasting Insecticide-Treated Nets in Tanzania
ETNVS	Extension of Tanzania National Voucher Scheme
LLIN	long-lasting insecticide-treated net
NMCP	National Malaria Control Programme
MEDA	Mennonite Economic Development Associates
OMB	Office of Management and Budget
RIG	Regional Inspector General
TNVS	Tanzania National Voucher Scheme
TZS	Tanzanian shilling

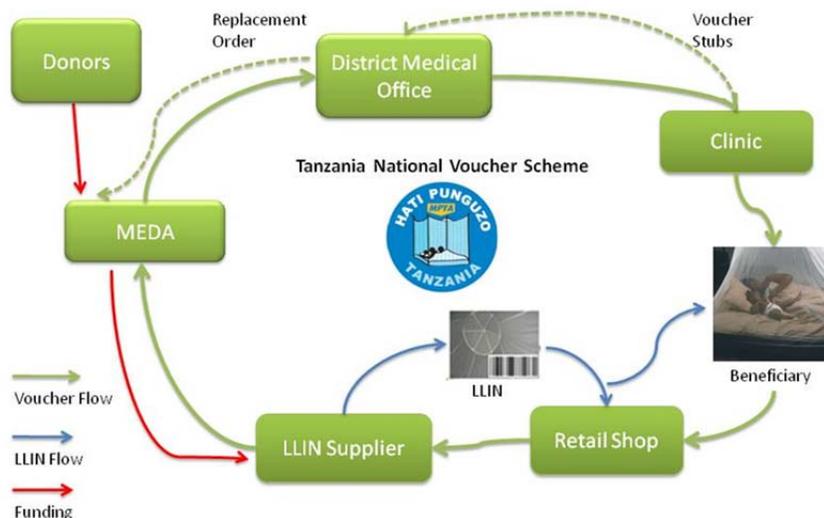
# SUMMARY OF RESULTS

According to Tanzania's Malaria Medium Term Strategic Plan 2008-2013 (published in July 2009), "malaria is the single most significant disease in Tanzania affecting the health and welfare of its 38.6 million mainland inhabitants." Consequently, the Government of Tanzania hopes to increase the percentage of households owning at least one insecticide-treated bed net from 36 percent in 2007 to 90 percent by 2013. Activities designed to reach this target have included mass distributions of free bed nets and the Tanzania National Voucher Scheme (TNVS), known in Kiswahili as *Hati Punguzo*.

Implementation of TNVS began in November 2004. The Tanzanian Ministry of Health and Social Welfare obtained funding from the Global Fund to Fight AIDS, Tuberculosis and Malaria (Global Fund) to provide vouchers to pregnant women who sought prenatal care at health facilities. The National Malaria Control Programme (NMCP), part of the Ministry, managed the scheme, supervising the work of several implementing partners: Mennonite Economic Development Associates (MEDA) to arrange logistics, Ifakara Health Institute to do monitoring and evaluation, World Vision to do training, and KPMG/Tanzania to audit the program.

TNVS is the only bed net distribution system of its kind in the world. It uses a voucher distribution system, which is more targeted to vulnerable populations than mass distribution campaigns. And because beneficiaries pay part of the cost, they may be more likely to use the nets. The process (Figure 1) starts with the distribution of vouchers by MEDA to district medical offices. These offices then provide the vouchers to reproductive and child health clinics throughout Tanzania.<sup>1</sup>

Figure 1. Voucher and Net Cycle



Source: MEDA.

<sup>1</sup> Unless otherwise specified, references to Tanzania are to the mainland, not including Zanzibar.

From there, the process includes the following steps:

- Clinic staff issue vouchers to a pregnant woman making her first prenatal visit or parents/caretaker(s) at the time of an infant's vaccinations.
- The recipient presents the voucher to a participating retailer, pays a set price (currently 500 Tanzanian shillings [TZS] or about 30 cents), and receives a long-lasting insecticide-treated net (LLIN).
- The retailer keeps the TZS 500 as an incentive to participate in the program and exchanges the voucher for a new net from the manufacturer.
- The manufacturer presents the voucher to MEDA for payment.

Recognizing that the scheme was addressing the needs of only one of the country's two most vulnerable populations, USAID signed a cooperative agreement with MEDA to introduce infant vouchers to TNVS in June 2006. This agreement was called the Extension of Tanzania National Voucher Scheme (ETNVS).

ETNVS operated from June 2006 to June 2011, with USAID/Tanzania disbursing \$25.1 million to MEDA for implementation. While originally developed to fund infant vouchers, the ETNVS program was modified several times to accommodate changes requested by the government-led TNVS steering committee and to address funding gaps left by the Global Fund and other donors. In addition to the distribution of infant vouchers, at times ETNVS funded vouchers for pregnant women, vouchers to provide free bed nets to the poorest women and children, activities on Zanzibar, and mass bed net distributions.

ETNVS also accommodated the switch from re-treatable bed nets to LLINs and from fixed-discount vouchers to fixed-price vouchers. Fixed-discount vouchers worked like a coupon, with retailers setting their own prices for nets and beneficiaries receiving a set amount off that price. With fixed-price vouchers, the bearer of a voucher pays the same price for the same net regardless of the retailer.

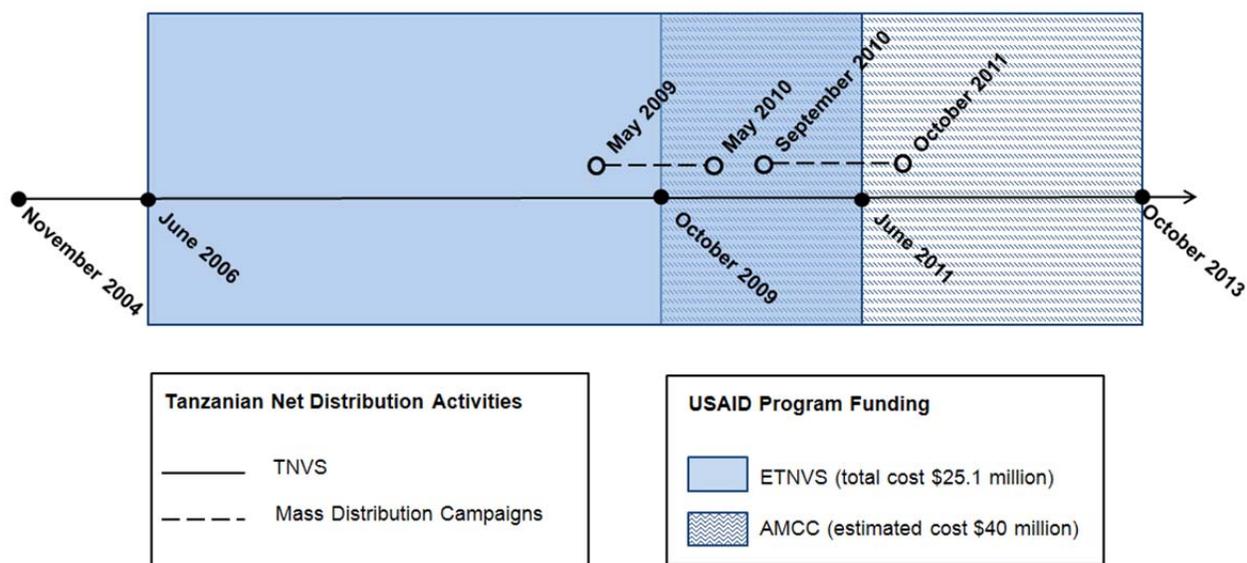
MEDA still implements USAID/Tanzania's net distribution activities but under another award, the Achievement and Maintenance of Comprehensive Coverage of Long-Lasting Insecticide-Treated Nets in Tanzania (AMCC) cooperative agreement. Running from October 2009 to October 2013, this program overlapped ETNVS for more than 20 months, as shown in Figure 2.<sup>2</sup>

As of March 31, 2012, USAID/Tanzania had disbursed \$10.3 million of the \$17 million obligated for the AMCC program. The total estimated cost to USAID for this program is \$40 million. Like ETNVS, AMCC primarily distributes infant vouchers in Tanzania—the United Kingdom's Department of International Development has funded vouchers for pregnant women since November 2011—although the program sometimes funds other activities, such as mass bed net distributions.

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<sup>2</sup> USAID/Tanzania extended ETNVS to accommodate the costs associated with vouchers printed prior to the program's end date, and because of uncertainty about continued funding from other donors.

**Figure 2. Timeline for USAID-Funded Activities**



The Regional Inspector General/Pretoria (RIG/Pretoria) conducted this audit to determine whether MEDA managed USAID-funded activities effectively to meet the objectives of TNVS—increases in bed net ownership and decreases in malaria. The audit determined that although desired outcomes in these areas were attributable in part to USAID-funded TNVS activities, MEDA was slow to address challenges and make improvements in U.S.-funded TNVS activities.

Stakeholders praised MEDA for its fraud prevention activities, which have resulted in very few reported thefts. They also commended MEDA’s current strategies for improving the voucher scheme. These include the recent introduction of an electronic voucher, first offered on a limited basis in fiscal year 2012. With electronic vouchers, clinic staff members use mobile phones to request a net redemption code. The code is written on the patient’s medical card, and the pregnant woman or the infant’s caretaker then has 60 days to redeem the voucher at a participating retailer before the voucher is electronically voided. At the retailer, staff members use mobile phones to verify that the code is valid before issuing a bed net. When the transition to electronic vouchers is complete, MEDA will have greater control over inventory management and net distribution and be able to calculate its liability for unredeemed vouchers with greater accuracy.

Further, according to the 2010 Demographic and Health Survey (published April 2011), the share of households in Tanzania owning at least one insecticide-treated bed net was 75 percent, up from 46 percent in the 2004–2005 survey. The survey also reported that the overall rate of mortality for children under 5, a common measure of the effectiveness of malaria interventions, was 81 per 1,000, down from 112 in the 2004-2005 survey. Stakeholders attribute some of this success to MEDA, which has been the primary bed net distributor in Tanzania since November 2004.

However, the audit determined that:

- MEDA’s focus on mass bed net distributions distracted from making improvements in the voucher scheme (page 6).

- MEDA did not establish achievable performance targets (page 7). As a result, it was extremely difficult for USAID/Tanzania to use performance information reported by MEDA to gauge performance, make development decisions, and allocate resources.
- Required performance management documents were incomplete or inconsistent (page 8). As such, they did not allow USAID officials to collect, analyze, and interpret performance data. These documents are intended to enhance the mission's ability to make timely adjustments, use performance information to influence decision making and allocate resources, and communicate results.
- MEDA charged questionable costs to the ETNVS and AMCC awards because MEDA was unfamiliar with regulations on costs that cannot be charged to federal awards (page 9). As a result, the awards were overcharged more than \$35,000, reducing the funds available to achieve program objectives.
- Tanzanians were unaware of the U.S. Government's role in the voucher scheme (page 12). MEDA was not required to update the program's branding and marking strategy in 2011 when the Global Fund grant expired and USAID became a primary funder of the voucher scheme. As a result, the U.S. Government does not receive the maximum public diplomacy benefits of its foreign assistance.

The report recommends that USAID/Tanzania:

1. Require MEDA to update the annual work plan for AMCC to include milestones for completing key activities and report on progress against those milestones in quarterly performance reports (page 7).
2. Require MEDA to establish performance targets in accordance with Automated Directives System (ADS) 203, "Assessing and Learning" (page 8).
3. Issue MEDA written requirements for reporting its performance on AMCC (page 9).
4. Require MEDA to compute the costs related to the personal use of organization-furnished automobiles charged to USAID under the ETNVS and AMCC awards, determine the allowability of these ineligible questioned costs, and recover from MEDA any amounts determined to be unallowable (page 10).
5. Determine the allowability of \$31,899 in ineligible questioned costs (spent on employee lunches), and recover from MEDA any amounts determined to be unallowable (page 11).
6. Determine the allowability of \$3,492 in ineligible questioned costs (spent on personal commuting costs), and recover from MEDA any amounts determined to be unallowable (page 12).
7. Require MEDA to compute the costs related to ineligible lunch stipends and unsupported laptop reimbursements charged to USAID under the ETNVS and AMCC awards, determine the allowability of these unsupported and ineligible questioned costs, and recover from MEDA any amounts determined to be unallowable (page 12).

8. Review MEDA's compensation and benefits policy; inform MEDA, in writing, of any benefits that are unallowable under the AMCC award; and implement procedures to confirm that such benefits are not charged to the award (page 12).
9. Require MEDA to submit an updated AMCC branding and marking plan (page 13).

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 them is on page 14.

# AUDIT FINDINGS

## **Implementer's Focus on Mass Bed Net Distributions Distracted From Voucher Scheme Improvements**

USAID designed the ETNVS and AMCC programs to help ensure the availability of insecticide-treated bed nets in Tanzania. Under these programs, mass bed net distributions were funded as one way to achieve bed net coverage goals. TNVS, which was also part of both agreements, was designed to ensure that the most vulnerable—pregnant women and infants—had affordable access to bed nets. Moreover, TNVS is the country's primary strategy to ensure that bed nets remain available and affordable as the population grows and existing nets wear out. To accomplish these goals, the ETNVS and AMCC agreements required MEDA to establish annual work plans with specific activities and timelines for achieving project milestones.

Although MEDA distributed bed nets in mass campaigns (from May 2009 to May 2010 and September 2010 to October 2011) to help the country achieve high levels of bed net coverage, TNVS activities were not as effective as they could have been. For example, MEDA recognized as early as September 2009 that shortages of vouchers at district medical offices and clinics and shortfalls of bed nets at participating retailers limited the effectiveness of TNVS operations. However, MEDA did not introduce procedures to collect, monitor, and analyze inventory data until February 2012.

Similarly, in 2009, the shift made by a government-led steering committee from a fixed-discount to a fixed-price voucher inadvertently limited consumers' choice of bed nets to a single type and resulted in a single supplier of bed nets.<sup>3</sup> Although consumer choice is an important element of TNVS effectiveness and supplier competition helps keep prices low, MEDA did not develop a strategy to address choice and competition concerns until May 2012.

As a result, almost 8 years into TNVS, significant improvements still are needed in its implementation. For example, during visits to clinics and retailers, the audit team saw that vouchers were out of stock. In Pwani Region, one clinic had not issued any infant vouchers between January 18 and May 18, 2012, because it did not have any. Similarly, a clinic in Arusha Region had not issued any infant vouchers since December 2011, despite the vaccination of 26 infants during the same period.

MEDA maintains that focusing on the mass distribution campaigns, which were the Government of Tanzania's top priority, was appropriate. However, MEDA had agreements with USAID, and USAID's biggest investments were related to TNVS. In contrast, USAID funded the procurement of only 1.8 million of the 26.4 million bed nets distributed in mass distributions.<sup>4</sup>

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<sup>3</sup> The fixed-discount voucher worked like a coupon entitling the bearer to subtract a set amount from the price of the net of his or her choice, with nets coming in a range of prices and shapes and colors. The fixed-price voucher entitles the bearer to a net valued at the set price, of which there is one kind.

<sup>4</sup> In addition to the procurement of 1.8 million bed nets, USAID funded the distribution of 4.3 million bed nets, the redistribution of 615,000 bed nets, and a portion of MEDA's operating costs.

TNVS activities were not as effective as possible for two reasons. First, stakeholders questioned whether MEDA had the capacity needed to implement mass bed net distributions and TNVS activities simultaneously. Although MEDA was selected competitively through USAID tenders that required an assessment of bidders' capacity, these tenders received little response from other implementers because of MEDA's historic involvement in the country's net distributions. Second, MEDA's annual work plans, which USAID approved, were not comprehensive; they did not address all TNVS challenges. Further, key activities that were included in the work plans—such as revising the voucher-ordering model—did not define dates by which specific steps would be taken, making it difficult for USAID to monitor progress. Despite their flaws, USAID approved these work plans because of competing priorities and the ongoing difficulties with performance management documents (described in the finding on page 8).

Although TNVS still requires significant improvements, the voucher scheme was MEDA's sole focus in Tanzania during fieldwork. The program now has procedures to collect, monitor, and analyze data on voucher inventories, and officials recently presented to TNVS stakeholders a strategy for introducing choice and competition. Therefore, we make no recommendation regarding MEDA's capacity. However, to improve the management of any future USAID-funded activities implemented by MEDA, the audit makes the following recommendation.

***Recommendation 1.** We recommend that USAID/Tanzania require Mennonite Economic Development Associates to update the annual work plan for the Achievement and Maintenance of Comprehensive Coverage of Long-Lasting Insecticide-Treated Nets in Tanzania to include milestones for completing key activities (such as resolving issues with voucher inventories) and report on progress against those milestones in quarterly performance reports.*

## **Implementer Did Not Establish Achievable Performance Targets**

According to ADS 203.3.4.5, performance targets should be “ambitious, but achievable given USAID (and other donor) inputs.” The Agency's 2010 Performance Monitoring and Evaluation TIPS Number 8, “Baselines and Targets,” indicates that targets “help justify a program by describing in concrete terms what USAID's investment will produce” and should be based on program resources, the implementation period, and the logic and assumptions on which the development strategy is built.

However, MEDA did not establish performance targets based on these factors. Therefore, the performance targets recorded in MEDA's annual work plans were not achievable. Instead, MEDA set performance targets based on figures developed by NMCP—figures that may need lowered. Stakeholders agreed that these figures need revisions for several reasons: the assumptions on which the targets were based were incorrect, health facilities did not consistently distribute vouchers to beneficiaries, donor funding was not continuous or sufficient, and mass bed net campaigns lessened demand for bed nets distributed through the voucher scheme.

As the TNVS logistics partner for nearly 8 years, MEDA should have set performance targets more accurately. Target assumptions should have been adjusted as needed, and the impact of planned activities (such as mass bed net distributions) on voucher demand should have been estimated. Early in TNVS, when other donors funded MEDA, basing performance targets on

NMCP's figures might have been appropriate. However, when USAID began funding infant vouchers in 2006, MEDA should have described in concrete terms what USAID's investment would produce. MEDA did not adjust its approach at the time because USAID was funding only a small percentage of the scheme. When USAID became a major program donor, MEDA was already entrenched in the management of NMCP's bed net distribution program and continued to defer to NMCP in areas such as performance management, despite having an agreement with USAID.

However, mission officials also should have understood the target-setting process and challenged those targets as not based on the appropriate inputs, rather than allowing continued deference to NMCP. Recently, mission officials informed MEDA representatives that they must provide performance targets based on what could be reasonably achieved with USAID funds. However, mission officials did not require MEDA to lower the targets, since this was not a contract but a cooperative agreement, which according to Office of Management and Budget (OMB) policy, limits USAID's involvement to a reasonable and necessary minimum.

Without realistic targets, MEDA has consistently failed to achieve its planned TNVS bed net distributions. In 2011, MEDA's AMCC annual work plan stated that approximately 762,000 bed nets would be distributed through the voucher scheme for infants' use, but only 530,000 bed nets were actually dispensed. Similarly, MEDA has not come close to meeting its target for the number of participating retailers. In 2011, the target was 12,000 participating retailers, yet the actual number at year-end was under 5,500. In fiscal year 2012, MEDA reduced the target to 6,400, but halfway through the year the number participating had increased by only 100, to 5,600.

Because TNVS performance targets were not based on program resources, the implementation period, and the program's underlying assumptions, it was unclear to what extent the shortfalls were related to poor target setting and to what extent they were related to poor implementation. Therefore, it was extremely difficult for the mission to use performance results to assess MEDA's performance, make development decisions, and allocate resources. While mission officials have employed other methods—such as independent evaluations—to assess the success or failure of the programs, performance targets remain an important tool for effective program management. To improve performance management, the audit makes the following recommendation.

***Recommendation 2.** We recommend that USAID/Tanzania require Mennonite Economic Development Associates to establish performance targets in accordance with Automated Directives System 203, "Assessing and Learning."*

## **Performance Management Documents Were Not Complete or Consistent**

Performance management is one of the central tenets of USAID's operating philosophy. ADS 200.6 defines performance management as

the systematic process of monitoring the achievement of program operations; collecting and analyzing performance information to track progress toward planned results; [and] using performance information and evaluations to influence decision making and resource allocation.

Despite the limitations on USAID's role in a cooperative agreement, the ETNVS and AMCC awards included several provisions to enhance performance management. First, USAID had the right to approve MEDA's annual work plans before implementation. Next, after approval of the first AMCC annual work plan, USAID had the right to approve MEDA's monitoring and evaluation plan. Finally, USAID required MEDA to report performance results quarterly.

However, the audit identified the following deficiencies in performance management:

- The AMCC monitoring and evaluation plan was never finalized. Although the AMCC award was signed in October 2009, MEDA did not submit a monitoring and evaluation plan until April 2010. In June 2010, the USAID agreement officer's representative provided feedback to MEDA on necessary changes. In September 2010, the same mission official followed up with the MEDA country manager on the status of changes to the plan; the country manager took responsibility for the delay and resubmitted the plan days later. The official again provided feedback to MEDA on necessary changes. However, the mission did not continue to follow up on plan updates when a new agreement officer's representative was assigned in October 2010, so MEDA never submitted a revised plan.
- In fiscal years 2010, 2011, and 2012, MEDA's performance reports contained targets that were inconsistent with those in its annual work plans. Similarly, the targets in annual work plans did not agree with the targets in the incomplete AMCC monitoring and evaluation plan.

Mission officials said they faced numerous competing priorities, such as overseeing other large programs, carrying out responsibilities assigned to vacant positions, and responding to ongoing administrative communications and requests from MEDA. Because it was already difficult for them to use MEDA's performance results in a meaningful way as a result of the poorly set targets (described in the finding above), officials failed to resolve these other issues and inconsistencies in MEDA's performance management documentation. MEDA officials stated that the inconsistent targets stemmed from a failure to update planning documents when targets changed and other oversights during periods of staff turnover. To improve performance management, the audit makes the following recommendation.

***Recommendation 3.*** *We recommend that USAID/Tanzania issue Mennonite Economic Development Associates written requirements for reporting its performance on Achievement and Maintenance of Comprehensive Coverage of Long-Lasting Insecticide-Treated Nets in Tanzania.*

## **Implementer Charged Questionable Costs to USAID Awards**

OMB Circular A-122 requires that costs charged to federal awards be reasonable, allocable, and allowable. The circular also provides principles for establishing the allowability of various costs.

Mission officials recently disallowed costs MEDA charged to USAID awards related to housing and education allowances, which were not paid on a cost-reimbursement basis or supported by receipts as required by both federal and MEDA policy. In 2009, the mission disallowed leasing costs MEDA charged to USAID awards for vehicles purchased by USAID. Now, this audit questions MEDA's direct charges to USAID awards for the personal use of automobiles, staff lunches, and per diem, along with associated indirect costs.

**Personal Use of Automobiles.** Circular A-122, Attachment B, Section 8h, states that costs charged to a federal award related to personal use of organization-furnished automobiles (including transportation to and from work) are not allowable as a direct cost unless “necessary for the performance of the sponsored award and approved by awarding agencies.”

However, MEDA allowed senior management employees to use official vehicles to commute to and from the office daily and charged a portion of the associated costs to USAID. The chief of party, who has an average daily commute of 45 kilometers (approximately 28 miles), has received this benefit since her employment began in August 2009, and the finance manager, who has an average daily commute of 30 kilometers (approximately 19 miles), has received this benefit since August 2011. MEDA’s justification that this was a common benefit afforded employees in similar positions did not show that this personal use was necessary for the performance of the ETNVS and AMCC awards. Moreover, MEDA charged associated fuel and maintenance costs to the ETNVS and AMCC awards, although USAID officials did not approve the costs relating to the personal use of organization-furnished automobiles as required by Circular A-122.

MEDA officials explained that they were unfamiliar with the circular’s requirements regarding the personal use of automobiles. However, they indicated that this was a common benefit afforded employees and said that it was listed as a benefit in employee contracts. Further, they said they had provided USAID the contracts of individuals proposed as key personnel, and when USAID approved those key personnel, MEDA officials assumed that USAID had also approved the contract provisions, meaning that charging the costs was permissible.

The audit team could not substantiate MEDA’s explanation. Auditors reviewed the documentation submitted by MEDA and found that employee contracts were not included. Rather, the details of the employees’ compensation package were presented in a memo, which did not mention a transportation benefit.

As a result, the ETNVS and AMCC awards were overcharged by the amount related to the personal use of organization-furnished automobiles (ineligible questioned costs), reducing the funds available to achieve program objectives. Consequently, this audit makes the following recommendation.

***Recommendation 4.*** *We recommend that USAID/Tanzania (1) require Mennonite Economic Development Associates to compute the costs related to the personal use of organization-furnished automobiles charged to USAID under the Extension of Tanzania National Voucher Scheme and Achievement and Maintenance of Comprehensive Coverage of Long-Lasting Insecticide-Treated Nets in Tanzania awards, (2) determine the allowability of these ineligible questioned costs, and (3) recover from Mennonite Economic Development Associates any amounts determined to be unallowable.*

**Staff Lunches.** As noted above, costs charged to a federal award must be reasonable. In determining whether a cost is reasonable, Circular A-122, Attachment A, Section 3a, states that the cost should be “of a type generally recognized as ordinary and necessary for the operation of the organization or the performance of the award.” Furthermore, Section 3c states that consideration should be given to “whether the individuals concerned acted with prudence in the circumstances, considering their responsibilities to the organization, its members, employees, and clients, the public at large, and the Federal Government.”

MEDA's practice of providing daily lunches to its employees contravenes this guidance because it is neither ordinary nor necessary. Since 2009, \$31,899 for staff lunches (and associated indirect costs) was charged to the ETNVS and AMCC awards under "Office Utilities."

MEDA officials said providing lunch was necessary for operations because it would take staff too much time to go out to get lunch each day. However, eateries were nearby, and the office had facilities to store and prepare lunches that employees brought from home. Further, officials could not explain why this expense was classified as a utility, when the notes to the budget stated that utilities were based on historic figures and included only "electricity, water and generator fuel for all offices and warehouse facilities."

As a result, the ETNVS and AMCC awards were overcharged \$31,899, reducing the funds available to achieve program objectives. Consequently, this audit makes the following recommendation.

***Recommendation 5.*** We recommend that USAID/Tanzania determine the allowability of \$31,899 in ineligible questioned costs (spent on employee lunches) and recover from Mennonite Economic Development Associates any amounts determined to be unallowable.

**Per Diem.** Circular A-122, Attachment A, Section 3d, states that "significant deviations from the established practices of the organization which may unjustifiably increase the award costs" are one consideration in determining the reasonableness of a given cost. In addition to costs being reasonable, they also must be documented adequately. According to MEDA's compensation policy, per diem (provided to cover accommodation, food, local transport, and incidentals when one is working and staying outside of his or her normal work location) "must be supported by valid accommodation receipts to provide proof of travel outside the workstation."

However, the audit disclosed per diem charges that did not comply with this guidance:

- ***Personal commuting benefit.*** USAID was charged for the personal commuting costs of the human resources manager and former finance manager, both of whom were reimbursed up to TZS 250,000 (approximately \$158) per month for fuel for a personal vehicle. As described above, MEDA was unfamiliar with federal guidance on the personal use of automobiles and believed this to be an approved employee benefit. Nonetheless, the payment of a personal commuting benefit as per diem violated MEDA's compensation policy and is unreasonable. Including indirect costs, \$3,492 was charged to USAID awards for this expense from 2009 to May 2012.
- ***Lunch stipend for those not on travel.*** MEDA incurred costs for a lunch stipend offered to employees of TZS 5,000 – TZS 10,000 (approximately \$3 – \$6) working outside the office but not in an overnight travel status. This stipend compensates employees for missing the office-provided lunch noted above. These costs are unreasonable both as a violation of MEDA's compensation policy on per diem and for the reasons discussed in the section on staff lunches. At the time of audit fieldwork, MEDA could not reasonably calculate the total associated charges to USAID awards.
- ***Reimbursement for undocumented use of personal laptops.*** By policy, MEDA reimburses employees TZS 25,000 (approximately \$16) per month for use of their personal laptops for work. However, MEDA's practice is to reimburse employees for this as part of their travel

expense claims, and employees are not required to support that their laptop was used for work purposes. Therefore, the ineligible expenses could not reasonably be calculated. MEDA officials said that the use of personal laptops for work was necessary because the office-provided tablets did not have e-mail capability.

As a result, the ETNVS and AMCC awards were overcharged at least \$3,492, reducing the funds available to achieve program objectives. These costs, as well as those described in the subfindings above, relate primarily to employee benefits. Consequently, this audit makes the following recommendations.

**Recommendation 6.** *We recommend that USAID/Tanzania determine the allowability of \$3,492 in ineligible questioned costs (spent on personal commuting costs) and recover from Mennonite Economic Development Associates any amounts determined to be unallowable.*

**Recommendation 7.** *We recommend that USAID/Tanzania (1) require Mennonite Economic Development Associates to compute the costs related to ineligible lunch stipends and unsupported laptop reimbursements charged to USAID under the Extension of Tanzania National Voucher Scheme and Achievement and Maintenance of Comprehensive Coverage of Long-Lasting Insecticide-Treated Nets in Tanzania awards, (2) determine the allowability of these ineligible and unsupported questioned costs, and (3) recover from Mennonite Economic Development Associates any amounts determined to be unallowable.*

**Recommendation 8.** *We recommend that USAID/Tanzania (1) review Mennonite Economic Development Associates' compensation and benefits policy, (2) inform Mennonite Economic Development Associates, in writing, of any benefits that are unallowable under the Achievement and Maintenance of Comprehensive Coverage of Long-Lasting Insecticide-Treated Nets in Tanzania award, and (3) implement procedures to confirm that such benefits are not charged to the award.*

## **Tanzanians Were Unaware of the U.S. Government's Role in the Voucher Scheme**

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." The increasing role of development in U.S. national security policy has increased the need for U.S. foreign assistance activities to be identified clearly in host 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.

Although MEDA complied with ADS 320 and developed a branding and marking plan, Tanzanian medical officials, participating retailers, and program beneficiaries were generally unaware of the U.S. Government's role in the voucher scheme. These individuals believed that the voucher scheme was either a Tanzanian Government program supported by unknown donors or a program funded by MEDA.

Tanzanians were unaware of the U.S. Government's role in the voucher scheme because activities to increase their awareness were limited. For example, major branding activities included placing the President's Malaria Initiative logo on documents with limited circulation (such as quarterly performance reports), marking USAID-purchased vehicles, inviting USAID officials to program events, and putting the USAID logo on disposable bed net packaging.

The branding and marking plan exempted specific items with broader visibility, such as event materials and vouchers, on the basis that marking these items would undercut host-country ownership. This may have been appropriate when the plan was written in March 2010—when the Global Fund, through the Government of Tanzania, was funding all vouchers for pregnant women and 77 percent of the voucher scheme's operational costs. However, USAID did not consider asking MEDA to update the branding and marking plan when the Global Fund grant expired in June 2011 (leaving only USAID funding for the voucher scheme for several months) since this event did not constitute a legal modification to the award.

Making sure that the American people are recognized for their generosity in funding foreign assistance is a U.S. Government objective. Without clear, effective branding, the U.S. Government and the American people do not receive the maximum public diplomacy benefits of U.S. foreign assistance. Accordingly, the audit makes the following recommendation.

***Recommendation 9.*** *We recommend that USAID/Tanzania require Mennonite Economic Development Associates to submit an updated branding and marking plan for the Achievement and Maintenance of Comprehensive Coverage of Long-Lasting Insecticide-Treated Nets in Tanzania Program.*

# EVALUATION OF MANAGEMENT COMMENTS

In its comments on the draft report and in subsequent discussions, USAID/Tanzania agreed with all nine recommendations. Management decisions have been reached on Recommendations 1, 2, 3, 8, and 9, and final action has been taken on Recommendation 2. While we do not disagree with management's response to Recommendations 4, 5, 6, and 7, a management decision cannot be reached on these recommendations until the agreement officer makes a determination on the allowability of questioned costs and a target date for the collection of any disallowed amounts, in accordance with ADS 595.3.1.2. Our detailed evaluation of management comments follows.

**Recommendation 1.** On September 21, 2012, USAID/Tanzania sent a letter to MEDA requesting that the final AMCC work plan include milestones for key activities and dates by which MEDA would reach those milestones. Once completed, this work plan will be approved by the agreement officer's representative. Although the mission initially set a target date of November 15, 2012, for completion of this activity, subsequent communication with the mission indicated that the target date had been revised to February 15, 2013. Therefore, we acknowledge that a management decision has been reached on Recommendation 1. We agree with the decision.

**Recommendation 2.** On September 21, 2012, USAID/Tanzania sent a letter to MEDA reminding program staff members of their responsibility to establish performance targets in accordance with ADS 203, "Assessing and Learning." Based on management's comments and the supporting documentation provided, we acknowledge that a management decision has been reached and final action taken on Recommendation 2. We agree with the decision.

**Recommendation 3.** USAID/Tanzania agreed to establish agreed-upon performance reporting and submission requirements for MEDA on AMCC. This action will be completed by February 15, 2013. Therefore, we acknowledge that a management decision has been reached on Recommendation 3, and we agree with it.

**Recommendation 4.** USAID/Tanzania agreed with the recommendation and asked MEDA to compute and provide all costs related to the personal use of organization-furnished vehicles charged to USAID under ETNVS and AMCC. The agreement officer will determine the allowability of these costs and recover from MEDA any amounts determined to be unallowable. The target date for completion of this activity is February 15, 2013. We agree with these proposed actions. However, in accordance with ADS 595.3.1.2, a management decision cannot be reached on this recommendation until the agreement officer specifies the amount of questioned costs allowed and/or disallowed and a target date for collection of any disallowed costs.

**Recommendation 5.** USAID/Tanzania agreed with the recommendation and asked MEDA to compute and provide all costs related to staff lunches charged to USAID under ETNVS and AMCC. The agreement officer will determine the allowability of these costs and recover from MEDA any amounts determined to be unallowable. The target date for completion of this activity is February 15, 2013. While we agree with these proposed actions, a management decision cannot be reached on this recommendation until the agreement officer specifies the

amount of questioned costs allowed and/or disallowed and a target date for collection of any disallowed costs.

**Recommendation 6.** USAID/Tanzania agreed with the recommendation and asked MEDA to compute and provide all costs related to commuting costs using personal vehicles charged to USAID under ETNVS and AMCC. The agreement officer will determine the allowability of these costs and recover from MEDA any amounts determined to be unallowable. The target date for completion of this activity is February 15, 2013. While we agree with these proposed actions, a management decision cannot be reached on this recommendation until the agreement officer specifies the amount of questioned costs allowed and/or disallowed and a target date for collection of any disallowed costs.

**Recommendation 7.** USAID/Tanzania agreed with the recommendation and asked MEDA to compute and provide all costs related to lunch stipends and unsupported laptop reimbursements charged to USAID under ETNVS and AMCC. The agreement officer will determine the allowability of these costs and recover from MEDA any amounts determined to be unallowable. The target date for completion of this activity is February 15, 2013. While we agree with these proposed actions, a management decision cannot be reached on this recommendation until the agreement officer specifies the amount of questioned costs allowed and/or disallowed and a target for collection of any disallowed costs.

**Recommendation 8.** USAID/Tanzania agreed with the recommendation and will review MEDA's compensation and benefits policy, determine what may be unallowable under the AMCC award, communicate to MEDA which benefits are unallowable, and obtain confirmation from MEDA that unallowable benefits have not been charged to USAID. The target date for completion of this activity is February 15, 2013. Therefore, we acknowledge that a management decision has been reached on Recommendation 8. We agree with the decision.

**Recommendation 9.** On September 21, 2012, USAID/Tanzania requested that MEDA submit an updated branding and marking plan for AMCC. The mission will then modify the award to include the updated plan. The target date for completion of this activity is February 15, 2013. Therefore, we acknowledge that a management decision has been made on Recommendation 9, and we agree with it.

# 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 MEDA effectively managed USAID-funded activities to meet the objectives of TNVS. USAID has funded two programs in support of TNVS—ETNVS and AMCC. We selected both of these programs for review, and looked at activities dating back to fiscal year 2009 and running through audit fieldwork in May 2012. Because the mission has contracted an outside audit firm to review liabilities related to unredeemed vouchers and make recommendations on the subject, the audit team did not spend a significant amount of time reviewing liability issues.

USAID/Tanzania disbursed \$25.1 million to MEDA during the ETNVS program and, as of March 31, 2012, had disbursed \$10.3 million of the \$17 million obligated to the AMCC program.

In planning and performing the audit, we reviewed the April 2009 OIG report, “Audit of USAID/Tanzania’s Ongoing Activities Under the President’s Malaria Initiative” (Report No. 4-621-11-007-P). We also assessed USAID/Tanzania’s internal controls. We reviewed and inquired about the mission’s reporting for the Federal Managers’ Financial Integrity Act of 1982,<sup>5</sup> which provided detail on the mission’s administrative management, financial management, programming, and general control environments. We also obtained an understanding of and evaluated the mission’s organizational structure and its contracting, monitoring and evaluating, and reporting processes. This included obtaining and reviewing documentation to support program solicitation and procurement, the designation of the agreement officer’s representatives, the completion of data quality assessments, the performance of site visits, meetings held with implementing partners, the submission of periodic performance reports, and the scheduling and completion of program evaluations.

Audit fieldwork was conducted from April 20 to May 25, 2012. We conducted fieldwork in Dar es Salaam, where we interviewed key personnel at USAID/Tanzania, NMCP, and MEDA’s country office. In Arusha Region, we visited Arusha and Karatu Districts, meeting with officials from the district medical offices, four health facilities, and four participating retailers. We also met with officials from the regional medical office and A to Z Textiles, the programs’ bed net supplier. In Pwani Region, we visited Mkuranga District, where we met with officials from the district medical office, two health facilities, and two participating retailers.

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<sup>5</sup> Public Law 97-255, as codified in 31 U.S.C. 3512.

## Methodology

This audit was performed at the request of USAID/Tanzania. Therefore, our first step to answer the audit objective was interviewing mission officials to understand the reason for the request and narrow our focus. We also reviewed supporting documentation provided by the mission. Based on this, we selected for audit both USAID-funded programs that have supported TNVS—ETNVS and AMCC.

We then sought to understand malaria trends in Tanzania by obtaining demographic data and information on incidence and prevalence rates. We also 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); USAID's ADS chapters (ADS 201, "Planning"; ADS 202, "Achieving"; ADS 203, "Assessing and Learning"; and ADS 303, "Grants and Cooperative Agreements with Non-Governmental Organizations"); and OMB Circular A-122.

At USAID/Tanzania, we met with officials responsible for the selected programs, such as the agreement officer's representative and the activity manager for the ETNVS and AMCC agreements. We also met with the regional legal advisor; officials from the contracting, financial management, and program offices; and President's Malaria Initiative officials from Washington, D.C. We conducted these meetings to assess the mission's knowledge and implementation of USAID guidance and requirements and its general familiarity with the selected programs' activities. We reviewed documentation provided by USAID/Tanzania, such as 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.

We conducted additional interviews with officials from NMCP and with MEDA's staff in Tanzania. MEDA staff members included the chief of party, finance manager, operations manager, and monitoring and evaluation adviser. We also met with the MEDA headquarters-based vice president for market linkages. Through these interviews, we assessed the implementing partner's knowledge and implementation of USAID guidance and requirements. In conjunction with the interviews, we reviewed documentation provided by MEDA and USAID/Tanzania.

We selected site visit locations judgmentally, based on our desire to visit accessible urban and rural districts. Within each selected district, we selected two participating retailers from a list maintained by MEDA, and asked to visit that retailer along with the closest health facility. At district medical offices, we interviewed officials to understand the district's demographics and the operation of the voucher scheme. At health centers, we asked about malaria trends and the voucher distribution process. At retailers, we asked about the process for redeeming a voucher, as well as the retailer's perspective on the voucher scheme.

Given the nature of the audit objectives, no materiality thresholds were established. Rather, auditors answered the audit objective based on a qualitative analysis of whether the desired results had been achieved and whether MEDA followed applicable laws, regulations, and requirements. Our conclusions are based on published malaria data; stakeholders' testimonial evidence; a comparison of the programs' performance against agreed targets; and compliance with award terms, OMB circulars, and ADS.

# MANAGEMENT COMMENTS



## MEMORANDUM

**DATE:** October 12, 2012

**REPLY TO**

**ATTN OF:** Daniel Moore, Acting Mission Director /s/

**SUBJECT:** Mission Comments on “Audit of USAID-Funded Insecticide Treated Net Distribution Activities Implemented by Mennonite Economic Development Associates in Tanzania” (draft Report No. 4-621-12-XXX-P)

**TO:** Robert Mason, Regional Inspector General/Pretoria

**REF:** AUDIT REPORT No. 4-621-12-XXX-P, dated August 28, 2012

This memorandum transmits the Mission’s comments on the subject audit of USAID-Funded Insecticide Treated Net Distribution Activities Implemented by Mennonite Economic Development Associates (MEDA) in Tanzania. The Mission will address all nine recommendations, and has already taken steps to close them.

### **Plan for Corrective Actions with Target Completion Dates**

***Recommendation 1: We recommend that USAID/Tanzania require Mennonite Economic Development Associates to update the annual work plan for the Achievement and Maintenance of Comprehensive Coverage of Long-Lasting Insecticide-Treated Nets in Tanzania program to include milestones for the completion of key activities (such as addressing voucher stock-outs), and report on progress against those milestones in quarterly performance reports.***

**Mission Response:** Mission concurs. On September 21, 2012, USAID/Tanzania sent a letter to MEDA requesting that its Year 4 work plan include milestones for key activities and dates by which MEDA would reach those milestones. Year 4 represents the final year of the “Achievement and Maintenance of Comprehensive Coverage of Long-Lasting Insecticide-Treated Nets in Tanzania” (AMCC) cooperative agreement; this work plan covers all activities to be implemented—including award close-out—between October 27, 2012 and October 26, 2013. It is expected that the Year 4 work plan will receive Agreements Officer’s Representative’s (AOR) approval by October 26, 2012.

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Upon AOR approval of the Year 4 AMCC work plan, the approved work plan will be forwarded to the M/CFO/APC audit unit to close this recommendation. Target date for closure is Nov. 15, 2012.

***Recommendation 2: We recommend that USAID/Tanzania remind Mennonite Economic Development Associates, in writing, of its responsibility to establish performance targets in accordance with Automated Directives System 203, “Assessing and Learning.”***

**Mission Response:** Mission concurs. In its September 21, 2012 letter to MEDA, USAID/Tanzania reminded MEDA of its responsibility to establish performance targets in accordance with Automated Directives System 203, “Assessing and Learning.”

The Mission is hereby attaching its September 21, 2012 letter to MEDA for the Regional Inspector General, request closure of this recommendation upon issuance of the final audit report (see attachment).

***Recommendation 3: We recommend that USAID/Tanzania and Mennonite Economic Development Associates agree, in writing, on performance reporting and submission requirements for the Achievement and Maintenance of Comprehensive Coverage of Long-Lasting Insecticide-Treated Nets in Tanzania program.***

**Mission Response:** Mission concurs. In its September 21, 2012 letter, USAID/Tanzania informed MEDA that for all forthcoming performance reports, including the upcoming Year 3 annual report, MEDA must ensure that targets in reports match the targets in corresponding annual work plans or explain differences. The Mission intends to create a document for signature by the AOR and MEDA to agree on performance reporting and submission requirements for the AMCC award.

The Mission will share this signed document with M/CFO/APC by February 15, 2013 to close this recommendation.

***Recommendation 4: We recommend that USAID/Tanzania: (a) require Mennonite Economic Development Associates to compute the costs related to the personal use of organization-furnished automobiles charged to USAID under the Extension of Tanzania National Voucher Scheme and Achievement and Maintenance of Comprehensive Coverage of Long-Lasting Insecticide-Treated Nets in Tanzania awards; (b) determine the allowability of these ineligible questioned costs; and, (c) recover from Mennonite Economic Development Associates any amounts determined to be unallowable.***

**Mission Response:** Mission concurs. In its September 21, 2012 letter to MEDA, USAID/Tanzania required MEDA to compute all costs related to the personal use of organization-furnished vehicles charged to USAID under the “Extending the Tanzania National Voucher Scheme” (ETNVS) and AMCC awards from 2006 (when the ETNVS cooperative agreement began) to date, giving MEDA a deadline to submit this information by October 30, 2012. The Mission’s Agreements Officer will determine the allowability of these questioned costs and recover from MEDA any amounts determined to be unallowable.

Upon receipt of the full accounting of related expended funds, the subsequent allowability determination of the Agreements Officer, and refund of funds (if required) by MEDA, the Mission will notify M/CFO/APC and request closure of this recommendation. Target date for closure is February 15, 2013.

***Recommendation 5: We recommend that USAID/Tanzania determine the allowability of \$31,899 in ineligible questioned costs (spent on employee lunches), and recover from Mennonite Economic Development Associates any amounts determined to be unallowable.***

**Mission Response:** Mission concurs. In its September 21, 2012 letter to MEDA, USAID/Tanzania required MEDA to compute all costs related to staff lunches charged to USAID under the ETNVS and AMCC awards from 2006 to date, giving MEDA a deadline to submit this information by October 30, 2012. The Mission's Agreements Officer will determine the allowability of these questioned costs and recover from MEDA any amounts determined to be unallowable.

Upon receipt of the full accounting of related expended funds, the subsequent allowability determination of the Agreements Officer, and refund of funds (if required) by MEDA, the Mission will notify M/CFO/APC and request closure of this recommendation. Target date for closure is February 15, 2013.

***Recommendation 6: We recommend that USAID/Tanzania determine the allowability of \$3,492 in ineligible questioned costs (spent on personal commuting costs), and recover from Mennonite Economic Development Associates any amounts determined to be unallowable.***

**Mission Response:** Mission concurs. In its September 21, 2012 letter to MEDA, USAID/Tanzania required MEDA to compute all costs related to commuting costs using personal vehicles charged to USAID under the ETNVS and AMCC awards from 2006 to date, giving MEDA a deadline to submit this information by October 30, 2012. The Mission's Agreements Officer will determine the allowability of these questioned costs and recover from MEDA any amounts determined to be unallowable.

Upon receipt of the full accounting of related expended funds, the subsequent allowability determination of the Agreements Officer, and refund of funds (if required) by MEDA, the Mission will notify M/CFO/APC and request closure of this recommendation. Target date for closure is February 15, 2013.

***Recommendation 7: We recommend that USAID/Tanzania: (a) require Mennonite Economic Development Associates to compute the costs related to ineligible lunch stipends and unsupported laptop reimbursements charged to USAID under the Extension of Tanzania National Voucher Scheme and Achievement and Maintenance of Comprehensive Coverage of Long-Lasting Insecticide-Treated Nets in Tanzania awards; (b) determine the allowability of these ineligible and unsupported questioned costs; and, (c) recover from Mennonite Economic Development Associates any amounts determined to be unallowable.***

**Mission Response:** Mission concurs. In its September 21, 2012 letter to MEDA, USAID/Tanzania required MEDA to compute all costs related to lunch stipends and unsupported laptop reimbursements charged to USAID under the ETNVS and AMCC awards from 2006 to date, giving MEDA a deadline to submit this information by October 30, 2012. The Mission's Agreements Officer will determine the allowability of these questioned costs and recover from MEDA any amounts determined to be unallowable.

Upon receipt of the full accounting of related expended funds, the subsequent allowability determination of the Agreements Officer, and refund of funds (if required) by MEDA, the Mission will notify M/CFO/APC and request closure of this recommendation. Target date for closure is February 15, 2013.

***Recommendation 8: We recommend that USAID/Tanzania: (a) review Mennonite Economic Development Associates' compensation and benefits policy and inform Mennonite Economic Development Associates, in writing, of any benefits that are unallowable under the Achievement and Maintenance of Comprehensive Coverage of Long-Lasting Insecticide-Treated Nets in Tanzania award; and, (b) implement procedures to ensure that such benefits are not charged to the Achievement and Maintenance of Comprehensive Coverage of Long-Lasting Insecticide-Treated Nets in Tanzania award.***

**Mission Response:** Mission concurs. In its September 21, 2012 letter to MEDA, USAID/Tanzania requested that MEDA furnish the Mission with a copy of its compensation and benefits policy. The Mission Agreements Officer will a) review this policy, b) determine what may be unallowable under the AMCC award, c) communicate to MEDA in writing which benefits are unallowable, and d) obtain written confirmation from MEDA that any unallowable benefits have not charged to the USAID award.

The Mission will notify M/CFO/APC of actions completed to request closure of this recommendation. Target date for closure is February 15, 2013.

***Recommendation 9: We recommend that USAID/Tanzania require Mennonite Economic Development Associates to submit an updated branding and marking plan for the Achievement and Maintenance of Comprehensive Coverage of Long-Lasting Insecticide-Treated Nets in Tanzania program.***

**Mission Response:** Mission concurs. In its September 21, 2012 letter to MEDA, USAID/Tanzania requested that MEDA submit an updated branding and marking plan for the AMCC award no later than October 30, 2012.

The Mission will modify the award to include the updated plan and will share the approved, updated AMCC branding and marking plan with M/CFO/APC by February 15, 2013 to request closure of this recommendation.

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