OFFICE OF INSPECTOR GENERAL

AUDIT OF USAID/MOZAMBIQUE'S CLINICAL HIV/AIDS SERVICES STRENGTHENING PROJECT IN SOFALA, MANICA, AND TETE PROVINCES

AUDIT REPORT NO. 4-656-14-003-P
JANUARY 15, 2014

PRETORIA, SOUTH AFRICA

Office of Inspector General

January 15, 2014

MEMORANDUM

TO: USAID/Mozambique Mission Director, Alexander Dickie

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

SUBJECT: Audit of USAID/Mozambique's Clinical HIV/AIDS Services Strengthening Project in Sofala, Manica, and Tete Provinces (Report No. 4-656-14-003-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 in Appendix II.

The report includes five recommendations to improve USAID/Mozambique's Clinical HIV/AIDS Services Strengthening Project in Sofala, Manica, and Tete Provinces. We acknowledge management decisions on all the recommendations. Please provide the necessary documentation to the Office of Audit Performance and Compliance Division to obtain final action on them.

Thank you 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
http://oig.usaid.gov

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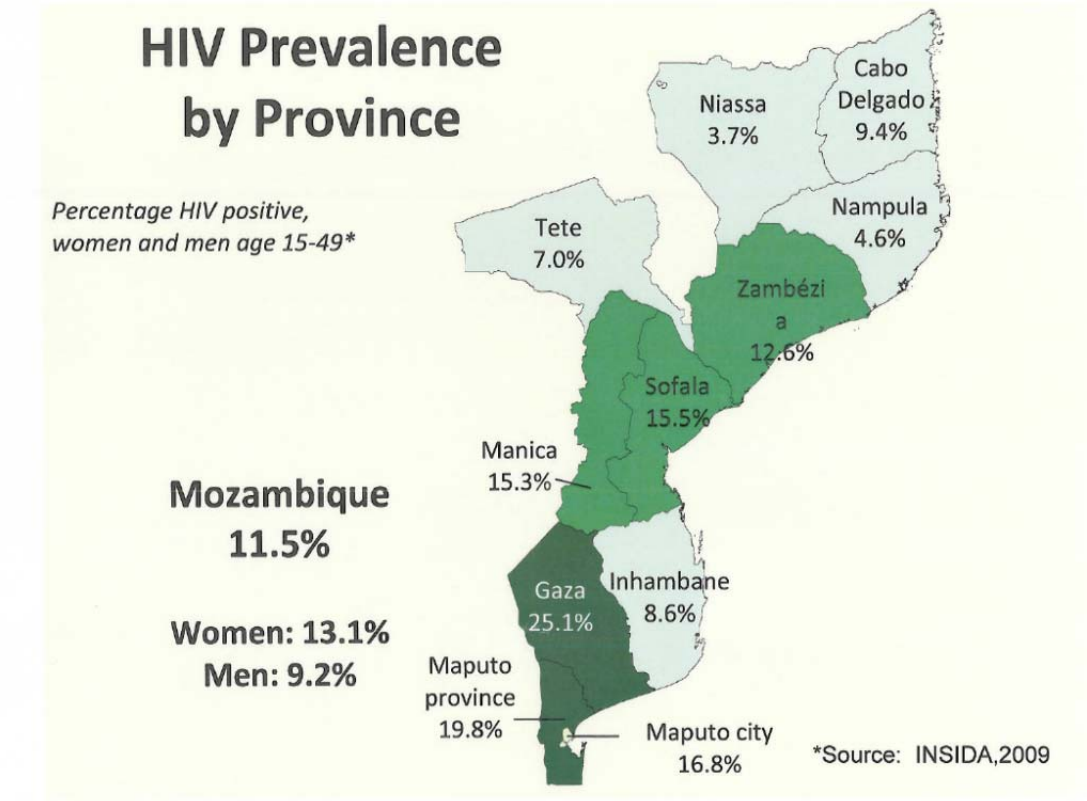
SUMMARY OF RESULTS

Mozambique suffers from a generalized HIV and AIDS epidemic, some 1.6 million of its people living with HIV. The epidemic has strained the country's health system and hindered economic growth by reducing the labor supply and diverting funds to health care that could otherwise be used for investment. As of December 31, 2012, the U.S. Government, through its global HIV initiative (the President's Emergency Plan for AIDS Relief, or PEPFAR), had spent approximately $1.1 billion to combat HIV in Mozambique.

USAID implements PEPFAR activities in Sofala, Manica, Tete, and Niassa Provinces, shown in the map below along with their HIV prevalence rates. Other U.S. Government agencies, such as the Centers for Disease Control and Prevention, implement PEPFAR activities in the other provinces. This audit focuses on USAID's activities in Sofala, Manica, and Tete.



Source: *National Survey of Prevalence, Risk Behavior and Information about HIV and AIDS in Mozambique*, 2009.

USAID's HIV activities in Sofala, Manica, and Tete began in 2004 with the HIV/AIDS Care Rapid Expansion Program, implemented by Health Alliance International. The program aimed to reduce HIV transmission and lessen the impact of AIDS by expanding and enhancing health services in these provinces.

USAID awarded a new activity, the Clinical HIV/AIDS Services Strengthening Project in Sofala, Manica, and Tete Provinces, to Abt Associates in January 2011. Although the HIV/AIDS Care Rapid Expansion Program focused on expanding service delivery, the project that succeeds it does not directly provide health services. Instead, its goal is to improve the quality of the health services that the system provides. In addition, the project seeks to improve the integration of HIV and related primary health-care services and support interaction between the health system and the community. The project's total estimated cost is $111.4 million through October 2015. As of December 31, 2012, USAID/Mozambique had obligated $40.7 million for the project and spent $34.2 million.

The Regional Inspector General/Pretoria (RIG/Pretoria) conducted this audit to determine whether the project was achieving its main goals of strengthening Mozambican systems and institutions, enhancing their sustainability, improving integration of HIV and related primary health-care services, and increasing access to and provision of high-quality HIV services.

The project was increasing access to and provision of high-quality HIV services by supporting provincial health directorates in Sofala, Manica, and Tete. This support included paying salaries for health-care workers, furnishing materials to health facilities, and providing technical assistance. Health-care workers interviewed generally commended the technical assistance provided by the project. This assistance, which exceeded performance targets, has enhanced the ability of the health directorates in Sofala, Manica, and Tete to deliver HIV services, as illustrated in Table 1.

Table 1. Illustrative Indicators of Project Support for Health Service Delivery in Fiscal Year 2012 (audited)

Performance Indicator	Target	Reported Result
Number of individuals with advanced HIV infection newly enrolled on antiretroviral treatment	20,619	23,922
Number of individuals who received counseling and testing services and received their test results (initiated by patient)	42,750	88,738
Number of HIV+ pregnant women who received antiretrovirals to reduce risk of mother-to-child transmission in antenatal care	17,285	21,948

Despite these positive results, the project lacked a strategy to transfer routine operating expenses to the Mozambican Government, did not effectively measure capacity-building efforts, and did not extend grants to community-based organizations on time. Therefore, the project's impact has been limited in creating sustainable Mozambican systems and integrating HIV services with primary health care.

Specifically, the audit found that:

- Contrary to the cooperative agreement and PEPFAR and USAID policy, the project lacked a strategy to transfer operating expenses to the Mozambican Government and thus enhance prospects for program sustainability (page 4). By making payments for food, salaries, and fuel, and fulfilling ad hoc requests for items not funded by the central government, the project has fostered a dependency on USAID that is not sustainable.

- The project did not measure capacity-building efforts effectively (page 6). The project is required to report on more than 200 indicators mandated by PEPFAR. These indicators effectively measure services provided, such as the number of persons tested for HIV, but are less effective in measuring the efforts of USAID implementing partners to increase the ability of local organizations to deliver HIV services without donor assistance.

- Some subrecipients (the provincial health directorates) did not have audits required by USAID policy (page 6). Project officials believed they could not compel the provincial health directorates, as Mozambican Government institutions, to have these audits, although the subagreements and USAID guidance—Automated Directives System (ADS) Chapter 591—require them.

- Poor communication between the project and USAID interrupted the renewal of grants supporting community activities (page 7). These activities helped link the community and the health-care system, promoting access to health-care and adherence to HIV treatment regimens. USAID and Abt Associates differed in their interpretations of the requirements for modifying and entering into subagreements, the implementer delaying renewal while waiting for approval that USAID later said was not required.

- The project award omitted a provision required by the Tiahrt Amendment (page 9). This provision was required when the award was modified to include family-planning activities.

To improve the performance of the project, the audit recommends that USAID/Mozambique:

1. Work with project stakeholders, including Abt Associates and provincial health directorates in Sofala, Manica, and Tete, to implement a plan with benchmarks to transfer the project's support for health delivery to the Mozambican Government (page 6).

2. Implement cost-effective tools to measure the progress and impact of the project's capacity-building efforts (page 6).

3. Obtain evidence from Abt Associates that required annual financial audits of USAID resources managed by the provincial health directorates in Sofala, Manica, and Tete Provinces for 2011 and 2012 have been completed (page 7).

4. Issue to Abt Associates written requirements for getting USAID approval before modifying or entering into second-tier subagreements (page 8).

5. Amend the project award to include the provision required by the Tiahrt Amendment (page 9).

Detailed findings appear in the following section, and the scope and methodology appear in Appendix I. Management comments are included in Appendix II (without attachments), and our evaluation of them is on page 10.

AUDIT FINDINGS

Project Lacked Strategy to Transfer Operating Expenses to the Government

PEPFAR's *FY [Fiscal Year] 2012 Capacity Building and Strengthening Framework* (Version 2.0) states that, "The focus of capacity building will be on shifting abilities for implementation and management of PEPFAR-supported HIV services and programs to local and national organizations over time, while sustaining continued gains in health impact." Consistent with this guidance, the Partnership Framework Agreement between the United States and Mozambique states that "program sustainability" is a priority and that PEPFAR plans to transfer management and ownership of programs previously funded by the U.S. Government to the Mozambican Government and civil society organizations.

Accordingly, the award states that after an initial period of subsidy and donor support to enhance the skills of the provincial health directorates, the directorates "will begin to make the transition to local management over a reasonable period of time." Further, the award envisions that, "by project conclusion, the DPSs [provincial health directorates] will be ready and able to manage service delivery on their own and require only minimal technical assistance from external sources." By the end of the award, the project is expected to ensure that the provisional health directorates can directly manage funds received from the U.S. Government. This objective reflects both PEPFAR guidance and the USAID Forward initiative, which seeks to increase the use of host-government systems.

Given these goals, the continued subsidy of operating expenses is not sustainable. The project was designed to transfer these expenses to Mozambican organizations, but this transition has not occurred. Table 2 illustrates some of the operating expenses subsidized by the project, followed by a detailed explanation.

Table 2. Provincial Health Directorates' Operating Expenses Supported by the Project ($) (unaudited)

Expense	Sofala		Manica		Tete	
	2011	2012	2011	2012	2011	2012
Per Diem	27,781	171,985	131,586	95,249	154,395	217,535
Salary Payments	*	*	*	*	*	*
Fuel Payments	38,356	38,133	57,230	19,303	40,432	86,270
Snacks and Food	19,072	53,539	35,301	42,660	47,674	163,079
Utilities		7,923		1,058		935
Percent of directorate's total operating expenses	39	62	80	64	83	74

* Amounts are proprietary information and have been withheld.

- *Per diem.* The project pays travel allowances to help the provincial health directorates cover costs of supervision, training, and drug distribution. For example, in one province the project paid per diems to drivers to transport patient samples, drugs, and other medical products. In addition, the project supported numerous trainings and meetings for government officials, which included per diem. The project also paid for catering at these events (included in Table 2 as snacks and food).

- *Salaries*. To ensure that health facilities have enough personnel to deliver essential health services without interruption, the project pays the salaries of some health-care workers in Sofala, Manica, and Tete who have finished their preservice training while the Mozambican Government goes through the long process of absorbing them onto its payroll. In general, Mozambican authorities have been unable to increase payrolls because of fiscal constraints. In fact, the Mozambique Public Service Commission reduced the number of new public sector positions from 13,000 in 2012 to 10,000 in 2013. However, the project negotiates with provincial health directorates to obtain their commitment to absorb these staff before the project enters into 18-month contracts with health care workers and seconds them to the directorates.

- *Fuel*. The project pays for fuel that the provincial health directorates use to transport medicine and supervisors to health facilities. Although the project has purchased trucks and motorbikes for the provincial health directorates, the directorates still rely on the project to pay for fuel.

- *Utilities*. The project pays water and other utility bills for some health facilities in Sofala, Manica, and Tete.

Beyond these expenses, USAID and project officials said that they receive additional ad hoc requests from Mozambican authorities. A project official said that if the request is within the mandate of the project, they fund the request. Further, multiple officials noted that funding from the central government is unpredictable, while the project is perceived as a reliable source of funding. Thus, the central government has often directed the provincial health directorates to seek funding from the project for unfunded, ad hoc requests. One project official estimated that the project receives about two to three such requests per month. When the project has denied requests, the provincial health directorates have responded in some instances by restricting technical assistance visits by project officials.

The mission continued the subsidies for two reasons. Project officials said that paying expenses such as these provides the minimal conditions necessary for effective capacity building. For example, a project official said that building capacity in maintaining patient registers and health information would not be possible unless the project provided the forms to carry out such functions. Further, funding has continued because the project has not developed a strategy to transfer the support function to the Mozambican Government.

Continued funding of both operational expenses and ad hoc requests fosters a dependency on USAID and is not sustainable. To promote the sustainability of USAID's investment in Mozambican health systems, the audit makes the following recommendation.

Recommendation 1. *We recommend that USAID/Mozambique work with project stakeholders, including Abt Associates and the provincial health directorates in Sofala, Manica, and Tete, to implement a plan with benchmarks, for transferring the project's support for health delivery activities to the Government of the Republic of Mozambique.*

Project Did Not Measure Capacity-Building Efforts Effectively

Performance monitoring is a cornerstone of USAID's operating philosophy. According to ADS 203.3.2, "Performance monitoring is the ongoing and routine collection of performance indicator data to reveal whether desired results are being achieved and whether implementation is on track." Under PEPFAR, the project must report semiannually on more than 200 indicators. Most of these indicators measure outputs such as the:

- *Number of individuals with advanced HIV infection newly enrolled on antiretroviral treatment.*
- *Number of individuals who received counseling and testing services and received their test results.*
- *Number of HIV-positive pregnant women who received antiretrovirals to reduce risk of mother-to-child transmission in antenatal care*.

These PEPFAR indicators measure the use of HIV services, not the provincial health directorates' ability to provide services independently. Thus the indicators do not provide feedback on whether the implementation of the project's capacity-building activities is on track. The main indicator used by the project to measure capacity building is directorates' timeliness in submitting documentation showing how they used advances provided by the project. While this indicator is useful in measuring the directorates' overall financial management, it does not show progress on providing health services without U.S. Government assistance.

According to USAID and project officials, the project was not effectively measuring its capacity-building efforts, primarily because PEPFAR does not have good indicators to do so. PEPFAR allocates budgets based on achievement of outputs—e.g., drugs and services provided—whereas the project focuses on capacity building. Measuring the achievement of PEPFAR-mandated output targets has detracted from the project's ability to measure the capacity-building efforts required by USAID. Project officials indicated they are developing a tool to measure these efforts. Until such tools are developed, USAID/Mozambique will not be able to measure the impact of the project's capacity-building activities. To improve USAID's monitoring of project performance, the audit makes the following recommendation.

Recommendation 2. *We recommend that USAID/Mozambique implement cost-effective tools to measure the progress of capacity-building activities under the Clinical HIV/AIDS Services Strengthening Project in Sofala, Manica, and Tete Provinces.*

Some Subrecipients Did Not Have Required Audits

USAID's ADS states that foreign recipients of USAID funds must have annual financial audits if they expend more than $300,000 during their fiscal year. Specifically, ADS 591.3.2.1 states:

> Foreign nonprofit organizations, host governments, and subrecipients that expend $300,000 or more in USAID awards (i.e., organizations that receive USAID funds directly or through a prime contractor or recipient) during their fiscal year, must have an annual audit conducted of those funds in accordance with the *Guidelines for Financial Audits Contracted by Foreign Recipients*.

Table 3 shows the funds expended by the three provincial health directorates in 2011 and 2012. The Manica and Tete health directorates exceeded the audit threshold in both 2011 and 2012, while the one in Sofala exceeded it in 2012. Nonetheless, the directorates did not undergo the audits that ADS 591 required.

Table 3. Province Health Directorates' Expenses in 2011 and 2012 ($) (unaudited)

Province	2011	2012
Sofala	221,205	505,866
Manica	339,319	461,552
Tete	319,480	675,890

According to Title 22 of the Code of Federal Regulations, Part 226, Section 51, recipients are responsible for managing and monitoring each subaward supported by an award. Therefore USAID is not responsible for directly monitoring subrecipients' compliance with applicable regulations. USAID is responsible, however, for confirming that Abt Associates oversees its subrecipients so they comply with the agreement terms and applicable regulations. Although Abt Associates officials were aware of the audit requirement, they did not approach the provincial health directorates to have financial audits performed because officials felt the directorates would not agree to them and that the project did not have the authority to compel directorates to undergo audits.

One goal of the project is to strengthen the ability of Mozambican institutions to manage direct financial support from USAID. An audit conducted in accordance with U.S. *Government Auditing Standards* would highlight significant internal control deficiencies and noncompliance with provisions of agreements and regulations. Early identification of these problems would allow the directorates to correct them promptly. In addition, these audits would help improve the directorates' financial accounting and reporting. Failure to conduct these audits, therefore, deprives USAID and the directorates of these expected benefits. To gain these benefits, the audit makes the following recommendation.

> ***Recommendation 3.*** *We recommend that USAID/Mozambique obtain evidence from Abt Associates that required annual financial audits of USAID resources managed by the provincial health directorates in Sofala, Manica, and Tete Provinces for 2011 and 2012 have been completed.*

Poor Communication Interrupted Community Grants

The project seeks to enhance coordination of HIV services and other health-care activities. To this end, the project provides grants to eight community-based organizations (CBOs) to promote access to medical care, conduct community outreach on HIV/AIDS and other medical issues,

and help improve adherence to HIV treatment regimens. A project subrecipient, FHI360, provides the grants to the CBOs; thus, the grants are second-tier subagreements.

One key role that CBOs play is helping patients complete their courses of treatment. CBOs send volunteers to find HIV-positive patients who have defaulted from treatment, get them to return to the health facilities, and continually reinforce the importance of staying on prescribed treatment. According to the World Health Organization, this is particularly important because failure to adhere to prescribed treatment regimens can result in poor suppression of HIV viral load, reducing the effectiveness of treatment and leading to the emergence of drug-resistant strains. Consequently, the assistance provided by CBOs is important to the success of efforts to counter HIV in Sofala, Manica, and Tete.

The initial grants to the CBOs ended on September 30, 2012. In March 2013, the grants resumed after USAID modified the cooperative agreement to revise the project's budget. Thus, despite the importance of CBOs' services and their contribution to enhanced coordination, the grants were interrupted for more than 5 months.

The interruption occurred because of a lack of communication. USAID and the project officials did not communicate to one another their different interpretations of federal regulations governing budget revisions. According to the project, Title 22 of the Code of Federal Regulations, Section 226.25 (c)(8), requires USAID approval in order for FHI360 to amend the CBO subagreements to include fiscal year 2013 in the implementation period. (Because of uncertainty about how well the CBOs would perform, project officials initially signed 1-year subagreements with the CBOs.) The project requested USAID approval in a letter sent to the agreement officer's representative and a mission acquisition and assistance specialist on December 3, 2012. However, according to USAID, there was no requirement for the agreement officer to approve the CBOs precisely because they were second-tier subagreements. Project officials were not aware of USAID's position because USAID did not tell them until after it approved Modification 6 in March 2013.

Although CBOs continued working after their agreements expired, the lapse had negative effects. For example, one CBO visited by the auditors in March 2013 did not have an employee available to provide counseling and testing services, limiting the enrollment of people in HIV care and treatment. Officials at this CBO also said they no longer have forms to document patient referrals to health facilities, making it difficult to follow up with these individuals on their particular treatment regimens. Furthermore, officials at both CBOs visited by the auditors said that staff members showed declining morale and motivation because of the interruption in their pay, despite assurances from a project official that they would be compensated retroactively. Many CBO employees are HIV-positive members from the communities they serve and rely on the CBO stipends as their sole source of income. This interruption could have harmed USAID's reputation in these communities, limiting the public diplomacy benefits of foreign assistance. Therefore, the audit makes the following recommendation.

> ***Recommendation 4.*** *We recommend that USAID/Mozambique issue to Abt Associates written requirements for getting USAID approval for modifying or entering into second-tier subagreements.*

Award Omitted Tiahrt Provision on Population Planning

USAID policy requires standard provisions to be included in award documents to ensure compliance with U.S. laws and regulations. USAID's *Standard Provisions for U.S. Nongovernmental Organizations* (a mandatory reference for ADS Chapter 303, "Grants and Cooperative Agreements to Non-Governmental Organizations") includes a list of both mandatory standard provisions and conditional provisions. These provisions are also applicable to commercial organizations like Abt Associates that receive cooperative agreements from USAID to carry out a project.

Although the project award included funding for family-planning activities, the award document did not include a provision required by the Tiahrt Amendment, which limits U.S. funding for family-planning programs to those with voluntary participation. The provision prohibits the payment of incentives for family-planning activities, such as bonuses to health-care workers for meeting a targeted number of births (if that target represents a reduction in or limit on births). A USAID official said that the mission added family-planning funds through a modification to the award and that not adding the applicable provision was an oversight.

The provision is important in this award because the project is paying incentives to health-care workers in Manica for performance. One of the indicators on which incentives are based is the *Number of institutional deliveries.* Unlike the target that the amendment forbids, this number reflects progress on efforts to promote safe childbirth; giving birth in a health facility improves maternal and newborn health. According to both USAID and OIG legal counsel, this arrangement did not violate the Tiahrt Amendment. However, a USAID/Mozambique official said that the provision should have been included in the award to raise awareness of the Tiahrt Amendment and thus deter violations of the law. Therefore, the audit makes the following recommendation.

> ***Recommendation 5.*** *We recommend that USAID/Mozambique amend the Clinical HIV/AIDS Services Strengthening Project in Sofala, Manica, and Tete Provinces cooperative agreement* to *include the provision required by the Tiahrt Amendment.*

EVALUATION OF MANAGEMENT COMMENTS

In its comments on the draft report, USAID/Mozambique agreed with and made management decisions on all five recommendations. Our detailed evaluation of management comments follows.

Recommendation 1. The mission agreed to develop, in collaboration with Abt Associates and the Mozambican Government, a plan with benchmarks to enable transfer of support for health delivery activities to the Mozambican Government. In its comments, the mission detailed a number of concrete actions it will take in developing this plan. In subsequent correspondence, the mission stated it expected to complete corrective action by May 31, 2014. We acknowledge management's decision.

Recommendation 2. The mission agreed to implement cost-effective tools to measure the progress and impact of the project's capacity-building efforts. The mission said that the project will soon introduce an assessment tool to measure these efforts and direct resources to needed areas. A set of indicators has also been developed for inclusion in new subagreements with the provincial health directorates. (In subsequent correspondence, the mission clarified that information regarding the possible introduction of capacity-building indicators by the Office of the Global AIDS Coordinator was presented for informational purposes only, and the mission will proceed independently with its new indicators.) The mission expected to implement the assessment tool and incorporate the indicators in the provincial subagreements by March 31, 2014. We acknowledge management's decision.

Recommendation 3. The mission agreed to obtain evidence from Abt Associates showing completion of 2011 and 2012 financial audits of USAID resources managed by the provincial health directorates in Sofala, Manica, and Tete Provinces. In comments, the mission described several steps it has already taken, such as notifying the provincial health directorates and developing a scope of work. The mission expected to complete corrective action by September 30, 2014. We acknowledge management's decision.

Recommendation 4. The mission agreed to issue to Abt Associates written requirements for obtaining USAID approval prior to modifying or entering into second-tier subagreements. The mission has already engaged in discussions with Abt Associates regarding these requirements. To reinforce these discussions, USAID/Mozambique expected to issue a letter to Abt Associates by January 31, 2014, outlining the USAID approval process. We acknowledge management's decision.

Recommendation 5. The mission agreed to amend the project award to include the provision required by the Tiahrt Amendment. The mission sent an award modification including the Tiahrt provision to Abt Associates for signature in December 2013 and expected to complete corrective action by January 31, 2014. We acknowledge management's decision.

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 this audit was to determine if the project was achieving its main goals of creating stronger and more sustainable Mozambican systems and institutions, increasing community interaction with and integrating HIV and related primary health-care services, and increasing access to and use of high-quality HIV services. Audit fieldwork was conducted from February 25 to March 14, 2013. The audit covered the first 2 years of the project. As of December 31, 2012, USAID/Mozambique had obligated $40.7 million for the project and spent $34.2 million. Because of a planned financial audit of the project, this audit focused solely on its performance.

For the audit we considered criteria including the following:

- The Government Accountability Office's *Standards for Internal Control in the Federal Government.*

- ADS Chapters 201, "Planning"; 202, "Achieving"; 203, "Assessing and Learning"; 204, "Environmental Procedures"; 303, "Grants and Cooperative Agreements to Non-Governmental Organizations"; and 320 "Branding and Marking."

- Code of Federal Regulations, Title 22, Part 226, "Administration of Assistance Awards to U.S. Non-Governmental Organizations."

- PEPFAR's *FY 2012 Capacity Building and Strengthening Framework* (Version 2.0).

In planning the audit, we assessed significant internal controls related to planning activities, making awards, managing and monitoring activities, and reporting and evaluating results. We reviewed the following:

- Results of USAID/Mozambique's fiscal year 2012 assessment for the Federal Managers' Financial Integrity Act of 1982 (as codified in 31 U.S.C. 1105, 1113, and 3512).

- The project cooperative agreement and modifications, work plans, quarterly reports, and performance management plans.

- Semiannual and annual performance reports by the project on indicators required by PEPFAR.

- The Partnership Framework Agreement between the United States and the Government of the Republic of Mozambique.

In performing the audit, we interviewed personnel managing and supporting the project—including members of USAID/Mozambique's health, financial management, program, legal, and contracting offices. We also interviewed Abt Associates and FHI360 officials in Maputo. In addition, we met with officials from the PEPFAR coordinator's office in Maputo. We conducted site visits in Sofala, Manica, and Tete Provinces. We visited and interviewed officials from provincial health directorates, district government, and the project in those provinces. In addition, we visited 15 health facilities that received technical assistance from the project. We visited a training center in Sofala that received support from the project. Finally, we spoke with representatives of selected CBOs in the three provinces to discuss their activities.

Methodology

To answer the audit objective, we met with officials from USAID, the project, and the Mozambican Government to gain an understanding of the project, its objectives, and progress on the objectives. We also reviewed project documentation to understand the project's activities and the indicators used to measure performance. We also reviewed financial information for the project and the provincial health directorates.

We conducted site visits in Sofala, Manica, and Tete Provinces to verify selected data reported by the project in fiscal year 2012. To do this, we first selected indicators that were representative of the project's support for health service delivery (shown in Table 1). We then judgmentally selected districts in the three provinces and health facilities within each district to get a representative sample of health facilities implementing project activities. This included both large health facilities in urban areas and small health facilities in rural areas. At health facilities visited, we verified the data reported by the health facility against health facility records, including monthly summary reports and registers supporting treatment of patients. For the three indicators selected, our audit covered 33 to 35 percent of reported results. Because our sample was judgmental, the results of our testing cannot be projected to the population from which it was drawn. We used a materiality threshold of 10 percent.

MANAGEMENT COMMENTS

USAID | MOZAMBIQUE
FROM THE AMERICAN PEOPLE

January 6, 2014

MEMORANDUM

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

From: **Alex Dickie, USAID/Mozambique Mission Director /s/**

Subject: **Audit of USAID/Mozambique's Clinical HIV/AIDS Services Strengthening Project in Sofala, Manica, And Tete Provinces (Report No. 4-656-14-0xx-P)**

Thank you for the opportunity to review the formal draft of the audit of USAID/Mozambique's Clinical HIV/AIDS Services Strengthening Project in Sofala, Manica, and Tete Provinces (CHASS-SMT project). We greatly appreciate the time and effort that your staff devoted to conducting this audit, your willingness to share and discuss initial draft recommendations, as well as your efforts to incorporate some of our comments in the draft report. We agree with the recommendations provided, and believe that implementation of these recommendations will help to achieve USAID and the project's objectives.

We are encouraged that your audit has determined that "the project [is] increasing access to and provision of high-quality HIV services by supporting provincial health directorates in Sofala, Manica, and Tete," meeting one of the key objectives. However, we acknowledge, as you note in the draft audit report, that the project has fallen short in the first identified objective to strengthen the Mozambican health system, and enable provinces to ultimately receive and manage direct support from the USG. We appreciate and agree with the auditors that, in order to fully measure system strengthening, we must incorporate indicators that accurately measure system strengthening results.

Response to audit recommendations

USAID/Mozambique concurs with Recommendations 1-5 and will take the following actions in response:

Recommendation 1: Work with project stakeholders, including Abt Associates and provincial health directorates in Sofala, Manica, and Tete, to implement a plan, with benchmarks, to transfer the project's support for health delivery activities to the Mozambican Government.

The Mission agrees that it is necessary to have a plan to transfer support for health delivery activities to the Mozambican government over time. Thus, the project has already begun the process of transferring recurrent costs to the GRM. One example of this is the transferring of

health workers from project support to the GRM civil service payroll. In Mozambique, there is typically a lag of approximately one year between when health workers finish their training and when they can be absorbed by the government. To avoid this gap and ensure that new health workers continue to build their capacity immediately after completion of training, PEPFAR has agreed to finance gap year salaries in all provinces. This practice also ensures that health facilities have enough personnel to deliver essential health services without interruption. Thus, PEPFAR partners, including CHASS SMT, employ health care workers and second them to health facilities for up to 18 months. These health care workers are then absorbed by the government as civil servants.

In Sofala, Manica, and Tete, in 2013, the project made significant progress towards transitioning project-supported health care worker salaries to the Mozambican Government. In Sofala Province, of 80 staff previously funded through the gap-year funding mechanism, 33 are in due progress to be absorbed by the DPS, 46 with administrative procedures started for absorption by June 2014, and one resigned. In Manica Province, all 50 staff supported through gap-year funding will be fully integrated before the end of March 2014. Only 13 people were funded through the gap-year mechanism in Tete; of these, 2 have been absorbed, one resigned and 10 will be dismissed since they don't fulfill conditions to be absorbed. Thus, salary costs of these health care workers will fully shift to the GRM by September 30, 2014.

In addition to transferring recurrent salary costs, CHASS SMT began implementation of a graduation path strategy in December 2013. The graduation path strategy involves intensifying and structuring capacity-building activities to ensure that the GRM has a strengthened health system that can effectively finance and deliver higher quality clinical services. This strategy includes clear processes for assessing needs, providing support to address system weaknesses and build capacity, and most importantly, clear benchmarks and a system to monitor progress against the Mozambican Ministry of Health's standards.

One component of the graduation strategy is assessing the degree to which the District Directorates of Health and Social Action (SDSMAS) engage in adequate planning, budgeting, and human resource accounting. To ensure adequate funding, as part of the national planning process, districts must elaborate a plan, as well as a budget for the plan. Further, they must have adequate accounting for their human resources, as well as unfilled human resource needs. These plans serve as the basis for the level of funding given to each district. Thus, to ensure that districts receive sufficient funding to cover their recurrent costs they must first have an accurate plan, budget, and understanding of human resource needs and costs. Through assessing each district, the project will work with the SDSMAS to identify any gaps in this information. When weaknesses are identified, teams work with their district counter-parts to identify causes and solutions, and then elaborate a detailed action plan for implementation. A copy of one of these action plans is attached in Annex I. After elaboration of this plan, the project and SDSMAS will implement recommended actions, strengthening capacity of the districts. Subsequent monitoring of districts' performance will enable the project to track the districts' movement towards 'graduation.' Annex II includes a description of the strategy (Annex IIa) and the three tools that will guide the Graduation Path (Annexes IIb, IIc, and IId), all of which are currently being field tested until the end of December 2013, to begin use in January 2014.

Alongside the development of district action plans, the Mission is simultaneously moving through Stage II to IV of the Public Financial Management Risk Assessment Framework (PFMRAF) procurement reform process in Sofala, Manica, and Tete provinces. Stage II assessment reports, finalized and translated into Portuguese in September 2013, are currently serving as the basis to identify and address risks within the provincial systems. A recent

meeting with the Provincial Directorate of Health in Sofala, based on the PFMRAF Stage II findings, led to a clear plan of action developed by the province that will serve as a guide for future system strengthening activities for both USAID and other donors in the province. In addition, at the national level, the US Embassy continues to advocate with the GRM to invest more resources into the health care system. Thus, the Mission is engaged at all levels to dialogue with the GRM about both increasing financial management capacity and ensuring that sufficient resources are committed to health.

To address recommendation #1, the Mission will, in collaboration with the CHASS Project and GRM, develop a plan with benchmarks based on the findings from the initial district assessments and quality improvement action plans that will be completed in 12 districts by May 31, 2014. The Mission will, alongside the project and provincial and district government representatives, monitor the implementation of these action plans throughout the life of the project. These documents will collectively serve as a plan to identify key benchmarks that, when met, will enable transfer of support for health delivery activities to the Mozambican Government.

Recommendation 2: Implement cost-effective tools to measure the progress and impact of the project's capacity-building efforts.

The Office of the Global AIDS Coordinator (OGAC) has also recognized that the mainly service delivery indicators tracked under PEPFAR are insufficient to measure capacity building and sustainability. Thus, in July 2013, OGAC shared a list of 110 possible new indicators, including indicators to measure capacity building and health system strengthening, with PEPFAR missions. A copy of this communication and the indicators received is included in Annex IIIa and IIIb. OGAC has indicated that a number of these standard indicators may be included in PEPFAR guidance in the future. After this list is finalized and released to PEPFAR missions, USAID/Mozambique will work with the implementing partners to identify capacity building indicators that will subsequently be included in project Performance Management Plans (PMP).

Currently, the project is in the process of finalizing a tool that will be used to measure the progress of capacity-building activities. The District Management Assessment Tool (Annex IIb) results in an action plan that will guide the technical assistance provided by the project. CHASS-SMT will use the District Management Assessment Tool to identify "Areas of Improvement" which will then be prioritized, ensuring that project resources are used in the most efficient and cost-effective way to produce measurable results.

Based on initial audit findings, the project has also developed indicators for all GRM sub-agreements. These indicators are meant to measure both outputs and outcomes of these agreements, in accordance with activities that are being financed, and include indicators that measure capacity building efforts. These indicators are included as Annex IVa and IVb, and will be reported on a quarterly basis using reporting form included as Annex V. The verification process is described in Annex VI. These indicators have already been incorporated into new district-level sub-agreements, and will be included in the new provincial sub-agreements that will be negotiated by March 31, 2014.

Recommendation 3: Obtain evidence from Abt Associates that required annual financial audits of USAID resources managed by the provincial health directorates in Sofala, Manica, and Tete Provinces for 2011 and 2012 have been completed.

Abt Associates issued a letter to the provincial health directorates in Sofala, Manica and Tete Provinces in April 2013 to inform them of the audit finding, and request that they comply with the audits as required. A copy of this letter is included in Annex VII. The project then sent the audit scope of work to the Mission and to RIG for review. Audits will be conducted by April 30, 2014, and conclude within 90 days of initiation, by July 31, 2014.

While USAID is not responsible for directly monitoring sub-recipients' compliance with applicable regulations, USAID will confirm, through information from Abt Associates, that sub-recipients have complied with the agreement terms and applicable regulations. Thus, given the timeline as stated above, it is expected that USAID will receive evidence of audits conducted via audit reports by September 30, 2014.

Recommendation 4: Issue to Abt Associates written requirements for getting USAID approval before modifying or entering into second-tier subagreements.

The Mission and Abt Associates discussed the appropriate approval process for entering into second-tier sub-agreements in July 2013; thus, the process for approval of these sub-agreements has already changed, in accordance with the provisions within the cooperative agreement that delegate approval of sub-agreements to the AOR. Annex VIII shows a copy of communication between the project and AOR that reflects this understanding, and demonstrates that the approval process is currently being exercised.

Per the above recommendation, the Mission will reinforce this process by issuing a letter to Abt Associates that outlines the USAID process for approval as it is stated within the Cooperative Agreement. This letter will be issued to Abt Associates by January 31, 2014.

Recommendation 5: Amend the project award to include the provision required by the Tiahrt Amendment.

Based on initial audit findings and discussion, the Mission has taken steps to amend the award to include the Tiahrt family planning provisions. Modification 7, including Tiahrt provisions, was issued to the project for signature on December 24, 2013. The fully signed modification will incorporated into the award before January 31, 2014.

Conclusion

Once again, we appreciate your work in helping us to strengthen the work that is being done under the Clinical HIV/AIDS Services Strengthening Project in Sofala, Manica, and Tete Provinces. Your identification of areas where we can improve can only help to ensure that our programs become even more effective in improving the quality of the health services for Mozambicans.

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
http://oig.usaid.gov