



OFFICE OF INSPECTOR GENERAL

AUDIT OF USAID/ETHIOPIA'S HIV CARE AND TREATMENT ACTIVITIES

AUDIT REPORT NO. 4-663-14-006-P
MAY 23, 2014

PRETORIA, SOUTH AFRICA



Office of Inspector General

May 23, 2014

MEMORANDUM

TO: USAID/Ethiopia Mission Director, Dennis Weller

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

SUBJECT: Audit of USAID/Ethiopia's HIV Care and Treatment Activities (Report No. 4-663-14-006-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 16 recommendations to strengthen USAID's HIV care and treatment activities in Ethiopia. We acknowledge management decisions on Recommendations 1 through 11 and 13 through 16, and consider that final action has been taken on Recommendations 7, 9, 10, and 14. In accordance with ADS 595.3.1.2, a management decision on Recommendation 12 cannot be acknowledged until the contracting officer specifies the amount of questioned costs allowed and/or disallowed (currently \$66,663) and sets a target date for collection of any disallowed amounts.

Please have the responsible official provide us with written notice within 30 days on actions planned or taken regarding Recommendation 12. Please also provide the necessary documentation to the Office of Audit Performance and Compliance Division to obtain final action on Recommendations 1 through 6, 8, 11, 13, 15, and 16. Recommendations 7, 9, 10, and 14 are closed upon report issuance.

Although we acknowledged management decisions on Recommendations 4 and 5, we disagreed with them for the reasons stated on pages 18 and 19. If the mission revises its decision for any of these recommendations, please do so in writing. Significant management decisions that OIG disagrees with are reported in our semiannual report to Congress.

I appreciate the cooperation and courtesy extended to my staff during the audit.

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Abbreviations

The following abbreviations appear in this report:

- COR contracting officer’s representative
- EHIP Ethiopia Health Infrastructure Program
- ENHAT-CS Ethiopia Network for HIV/AIDS Treatment, Care, and Support
- FBP Food by Prescription
- FY fiscal year
- IRD International Relief and Development
- PEPFAR President’s Emergency Plan for AIDS Relief
- RIG Regional Inspector General
- SNNPR Southern Nations, Nationalities, and Peoples’ Region

SUMMARY OF RESULTS

Ethiopia is the second most populous African country with an estimated population of 93.9 million in 2013, up from 73.8 million in 2007. Although the HIV prevalence rate is lower than many sub-Saharan African nations, about a million people in the country are living with HIV. Most are in urban areas, where the rate is 4 percent; the rural rate is 0.6 percent.

Efforts to control the spread of HIV in Ethiopia have been complicated by limited infrastructure. Based on World Health Organization guidelines, it should have had about 3,000 health centers in 2007 but had only about 600. Malnutrition is also a serious problem, especially for people living with HIV because the virus increases their metabolism but decreases their appetite and ability to absorb nutrients. Research indicates that malnutrition decreases the effectiveness of HIV treatment.

To address these challenges, in 2008 the U.S. Ambassador to Ethiopia agreed to help the government build new health centers. Then late in 2010, the U.S. and Ethiopian Governments agreed to “collaboratively expand, and sustain an effective response to the HIV/AIDS epidemic in Ethiopia over the next five years.” The partnership framework¹ encompassing this agreement has four goals:

1. Reduce the national HIV incidence by 50 percent by 2014.
2. Reduce morbidity and mortality, and improve the quality of life for people living with HIV by expanding access to quality care, treatment, and support by 2014.
3. Health systems necessary for universal access are functional by 2014.
4. [Have a m]ultisectoral response in place to prevent the spread of HIV and mitigate its impacts by 2014.

Each of these goals has several objectives that define how the Ethiopian and U.S. Governments will contribute toward that goal.

USAID/Ethiopia’s care and treatment activities generally fall under the second goal of the partnership framework, although funds for these activities also were used to build and renovate health centers (the third goal). During fiscal year (FY) 2012 and the first two quarters of FY 2013, USAID/Ethiopia obligated \$116.9 million and spent \$113.8 million toward care and treatment projects. This included \$24.2 million on the four projects selected for audit that appear in Table 1 on the next page.

¹ A partnership framework is comparable to a memorandum of understanding and is not legally binding.

Table 1. Audited Projects as of March 31, 2013 (Budget Figures Unaudited)

Project Name, Type (if Necessary), and Partner	Description	Budget	Dates
Food by Prescription (FBP); cost-plus-fixed-fee completion-type contract with Save the Children	This project helps health facilities identify people living with HIV who are moderately to severely malnourished and provides supplemental food for these patients.	\$19 million; obligations of \$12.2 million; expenditures of \$9.3 million	9/21/2009 – 9/20/2014
Ethiopia Health Infrastructure Program (EHIP) – Architecture and Engineering; cost-plus-fixed-fee completion-type task order with Tetra Tech	This task order was awarded to design the planned 85 new health centers, 9 new warehouses, and renovations of about 300 health centers.	\$6.6 million; obligations of \$6.6 million; expenditures of \$4.1 million	12/6/2010 – 12/5/2015
EHIP - Construction; indefinite quantity contract with International Relief and Development (IRD)	USAID awarded this contract to construct approximately 85 health centers and 9 warehouses, and renovate 300 health centers.	\$60 million; obligations of \$8.1 million; expenditures of \$5 million	7/27/2011 – 7/26/2016*
Ethiopia Network for HIV/AIDS Treatment, Care, and Support (ENHAT-CS); cooperative agreement implemented by Management Sciences for Health Inc.	This project helps the Ethiopian Government expand antiretroviral therapy and strengthen the continuum of care from household to hospital in Amhara and Tigray States.	\$41 million; obligations of \$18.3 million and expenditures of \$11.2 million	9/14/2011 – 9/16/2016

* This is the order period for the indefinite quantity contract, but task orders issued under the contract can extend through July 26, 2019.

The Regional Inspector General (RIG) in Pretoria conducted this audit as part of our FY 2013 audit plan to determine whether USAID/Ethiopia's HIV care and treatment activities were achieving the main goals under the partnership framework.

We found that the mission had mixed results toward achieving its main goals for care and treatment. ENHAT-CS generally was achieving its goals. The project's overall goal is to "mitigate the impacts of HIV/AIDS and improve quality of life of [people living with HIV] their families and the community." As part of this goal, the project aims to expand both adult and pediatric care and treatment. These activities address the second objective in the partnership framework. In FY 2012 ENHAT-CS reported helping the Ethiopian Government provide clinical care to 64,313 patients compared to a target of 58,007, and helped treat 56,694 compared to a target of 50,344, exceeding their targets by 11 and 13 percent, respectively. We tested both of these clinical indicators at five health centers in Amhara, without exception.

Beyond the reported results, ENHAT-CS had helped the Ethiopian Government expand its treatment services. For example, the government had expanded the number of health centers that provided HIV treatment from 110 in FY 2011 to 192 in FY 2013 with assistance from ENHAT-CS. Additionally, the project implemented innovative tools that made its activities more effective. For example, ENHAT-CS kept a register at each health center it supported to document each visit, including items for follow-up—a valuable tool to improve the usefulness of site visits.

However, the other projects audited had difficulties. EHIP did little to make sure that health systems necessary for universal access were functional by 2014. Only one center was complete as of September 2013, and it was not operational because water and electricity were not yet hooked up, local government had not assigned staff, and equipment has not yet been allocated. Given these delays, it is not likely that any more than five health centers (fewer than 6 percent of the number of new health centers USAID/Ethiopia planned to construct) will be operational before September 2014. Even after 2014, USAID/Ethiopia's impact on Ethiopia's health infrastructure will be markedly reduced, largely due to the increased costs and time required to build new centers (page 5).

We found the following problems.

- Several significant activities Tetra Tech conducted were outside its scope of work (page 10). It created new designs for health centers even though a mission official told company officials to use designs that met Ethiopian Government standards.
- Commodity storage conditions were not good, and inventory was poorly documented (page 11). We found mouse droppings near food commodities paid for by USAID.
- Internal controls did not prevent or detect ineligible costs (page 14). The mission's financial management system neither prevented nor detected more than \$66,663 of ineligible costs Tetra Tech claimed for value-added tax (comparable to sales tax).
- Data for FBP were not reliable (page 15). The quality of data gathered for nutritional counseling and number of patients receiving supplemental food was not good.

To address these problems, this report recommends that USAID/Ethiopia:

1. Determine whether IRD must reimburse USAID for its costs caused by the delayed completion of the first five health centers constructed under EHIP (page 7).
2. Determine, in writing, whether to include electricity and water connections in the scope of work for constructing new health centers (page 7).
3. Determine whether the fixed fee in the task order with Tetra Tech under EHIP can be reduced because the scope of work will not be completed as planned, document this determination, and recover the excess amount from Tetra Tech (page 10).
4. Meet with the Ethiopian Government's Federal Ministry of Health, determine which type of construction activity is most needed, and document this determination (page 10).
5. Reassess decisions about the type of new health centers to construct, the dollar value of renovations, and the budget allocation between renovations and new health centers, and revise the plan for future construction and renovation activities to best address current needs in Ethiopia (page 10).
6. Determine, in writing, whether health center prototype activities that Tetra Tech conducted were within its scope of work, and, if not, take necessary corrective action (page 11).

7. Determine the allowability of costs incurred to design the prototype health center and recover from Tetra Tech the amount determined to be unallowable (page 11).
8. Implement written procedures to document technical direction provided by contracting officer's representatives (CORs), and communicate these directions to contracting officers (page 11).
9. Implement policies and procedures to confirm that health facilities that manage USAID-funded commodities maintain and periodically reconcile their inventory records (page 13).
10. Require Save the Children to include documented reviews of storage conditions and record-keeping in its periodic site visits (page 13).
11. Ask Ethiopia's Federal Ministry of Health to issue explicit guidance on the proper, safe storage of all commodities (especially food and medicines) to all health facilities that manage USAID-funded commodities (page 13).
12. Determine the allowability of \$66,663 of ineligible questioned costs related to the reimbursement of value-added tax to Tetra Tech in contravention to the terms of the contract, and recover from Tetra Tech any amount determined to be unallowable (page 15).
13. Contract with an independent accounting firm to conduct an agreed-upon procedures engagement to determine the full amount of value-added tax claimed by Tetra Tech under Task Order AID-663-TO-11-00001 (page 15).
14. Implement procedures to prevent or timely detect ineligible costs related to the reimbursement of value-added tax (page 15).
15. Implement a monitoring plan for its HIV activities that includes documented, periodic site visits (page 17).
16. Require Save the Children to correct its reporting system to provide reliable data about the number of patients assessed for malnutrition, counseled, and provided with therapeutic food, and document the resolution (page 17).

Detailed findings appear in the following section, and the scope and methodology appear in Appendix I. Management comments are included in their entirety in Appendix II, and our evaluation of them begins on page 18.

AUDIT FINDINGS

Construction Activities Did Little to Improve Universal Access

One of the goals in the partnership framework between the Ethiopian and U.S. Governments is to have functional “health systems necessary for universal access” ready by 2014. A key component of this goal is expanded, improved physical infrastructure, with the U.S. Government agreeing to fund limited construction of new health facilities.

After the partnership was created in late 2010, USAID/Ethiopia awarded a task order to Tetra Tech to plan, design, and support construction of approximately 85 new health centers built in the government’s standard design and 9 warehouses, and the renovation of approximately 300 existing health centers.

On July 27, 2011, USAID/Ethiopia awarded an indefinite-quantity construction contract to IRD, which included plans to build 85 new Ethiopian Government-standard health centers. The most common standard health center, Type B, is 396 square meters (4,263 square feet), as shown in Figure III-1 in Appendix III.

On August 11, 2011, USAID allocated up to \$8.3 million under a task order to reimburse IRD for the costs of managing the construction contract. On March 16, 2012, USAID allocated \$936,914 under another task order to construct the first health center, and on September 28, 2012, USAID allocated another \$2.8 million to construct four more health centers. USAID did not issue any additional task orders under this contract through June 2013.

Even before the partnership began, the Ethiopian Government had embarked on a program to increase the number of health centers from about 600 in 2006 to 3,153 by the end of 2010 to meet World Health Organization guidelines. In 2008 the U.S. Ambassador to Ethiopia agreed to help the county with this construction.

Between 2006 and 2012, the Ethiopian Government and Global Fund constructed several thousand new health centers. A report by the fund’s inspector general noted that of the 2,333 new centers, 1,042 were funded by the government and 1,291 by the fund. Many had some defects; 71 percent of centers visited did not have access to water, 32 percent did not have functioning toilets, and 19 percent had leaking roofs.

Although USAID/Ethiopia tried to avoid these defects, they encountered some of them as well as others, as discussed in the following sections.

Health Centers Were Not Fully Operational by 2014. The task orders for the first five health centers stated that all should have been completed on or before August 8, 2013, and the partnership agreement stated that physical infrastructure should be in place by 2014. However, as of November 2013, only one center was fully constructed, and USAID/Ethiopia estimated that one more would be completed by December 31, 2013. The Ethiopian Government had not yet allocated equipment or staff to the completed facility, and USAID/Ethiopia estimated that it would not be connected to water and electricity until March 2014.

One of the reasons construction was not finished on time was that IRD did not include in its subcontracts a commonly used clause, known as liquidated damages, to encourage subcontractors to finish on time. If used, this clause would have set an amount that subcontractors would pay IRD for the costs it incurred because of delays, reducing the overall cost of the project.

However, the task orders between USAID and IRD for the construction of the first five health centers only stated that IRD shall “mitigate delay to the project and mitigate damages due to delay in all circumstances” and “provide immediate recovery for delay resulting from actions directly attributable to the contractor.” Although these do not require IRD to include liquidated damages in its subcontracts, they may make IRD liable to USAID for the avoidable costs it incurred overseeing these activities. In addition to incurring unnecessary costs, not including the liquidated damages clause in subcontracts gave subcontractors little incentive to meet deadlines.

Another factor that contributed to delays was redundant oversight. USAID/Ethiopia has three employees that conduct oversight of construction. In addition, IRD oversees its subcontractors through a system of quality control, and the COR for EHIP asked Tetra Tech to provide additional quality assurance for ongoing construction. Therefore construction crews at each site were visited by both the Tetra Tech quality assurance engineer and a USAID employee each week, as well as IRD’s site engineers who were there every day and the IRD quality control manager who visited the site periodically. Each visit meant that crews took time to report on the status of construction instead of working.

The main reason the health centers would not be operational until long after construction was completed was because delegations of responsibility were not well defined between the Ethiopian Government and USAID/Ethiopia. Although mission officials said the government agreed to connect health centers to water and electricity, it had not done so for hundreds of existing centers. For example, as of August 2013, it had not yet connected water to about 700 of the 2,333 health centers that Global Fund and the Ethiopian Government built between 2006 and 2012. Therefore, the mission officials responsible for the program at the time should have been aware that the government would not have connected health centers to water and electricity on time.

Nonetheless, the officials did not implement a plan to make sure USAID-funded health centers would have water and electricity when the construction was complete. When asked about this, the COR said his focus was on getting the centers built.

When mission officials realized the connections were not being made, they said they planned to issue a task order to have IRD connect centers to water and electricity under separate subcontracts from the original construction. However, this task order had not been issued as of November 2013.

Handling the water and electrical connections this way is wasteful because IRD must go through two bidding processes, and subcontractors must mobilize twice for what could have been the same project. Overall costs also will increase because USAID must reimburse IRD for its management costs, including issuing subcontracts. Additionally, none of the new health centers would be operational until at least March 2014.

To mitigate the costs of delays from the construction of the first five health centers and to shorten the time frame for newly constructed ones to become operational, we make the following recommendations.

Recommendation 1. *We recommend that USAID/Ethiopia determine, in writing, whether International Relief and Development must reimburse USAID for its costs caused by the delayed completion of the first five health centers constructed under the Ethiopia Health Infrastructure Program.*

Recommendation 2. *We recommend that USAID/Ethiopia determine, in writing, whether to include electricity and water connections in the scope of work for constructing new health centers.*

Program Scope Significantly Reduced. The mission significantly reduced the number of health centers it would construct and renovate. Early in the program, it removed the nine warehouses from EHIP and had a different contractor build them. It increased the estimated number of new health centers to 92 and kept the number of renovations at 300. However, as of June 30, 2013, Tetra Tech estimated that only 35 new health centers would be constructed and 50 health centers would be renovated. Then by October 10, 2013, USAID/Ethiopia reduced the estimated number of new centers to 28 to accommodate the Ethiopian Government's request for a blood bank.

Mission officials said they plan to construct and renovate fewer health centers because the EHIP budget was reduced and Tetra Tech designs were significantly over budget. The budget originally was \$66.6 million. But as of FY 2013, the President's Emergency Plan for AIDS Relief (PEPFAR) had allocated only \$46.3 million for EHIP, and the PEPFAR coordinator for Ethiopia said USAID/Ethiopia was unlikely to receive additional construction funding.

The primary reason for the reduced scope was that the cost of Tetra Tech's designs vastly exceeded the original budget. Although the USAID contracting officer instructed Tetra Tech on June 29, 2011, to modify the design to meet the budget of \$250,000 to \$300,000 per health center, the average cost for the first five health centers was \$756,431 each, and the COR told auditors that future health centers could cost more.

The mission did not have documentation available to explain why Tetra Tech did not comply with these directions, but a change in contracting officers was probably a contributing factor. During a meeting with the new contracting officer in August 2011, less than 2 months after the previous one had told Tetra Tech to use a simpler design to stay on budget, the contractor presented the prototype (various designs proposed are shown in Appendix III), and noted that it would cost about \$300,000 plus the cost of adapting the land to meet the design specifications. Auditors could not determine why neither the COR nor the chief of party for Tetra Tech fully briefed the new contracting officer on the construction options at this meeting because the chief of party left the program and the COR left USAID before the audit began.

The cost of a health center rapidly increased to an estimated \$530,000 (plus site adaptations) as of September 19, 2011. Additionally, on October 19, 2011, the COR told Tetra Tech that the budget for renovations was \$75,000 to \$100,000 per health center. Yet, by August 23, 2013, after a new COR was assigned, Tetra Tech officials said they designed renovations based on what could be done for \$125,000—between 25 and 67 percent more than the budget.

Finally, when asked why Tetra Tech was planning to complete so much less than what was stated in the task order, the chief of party said the proposal had been for \$10 million, but, after negotiations, Tetra Tech signed a contract for only \$6.6 million—thus making the deliverables unrealistic with the reduced price. However, the original offer has no impact on the legally binding contract.

He said the task order required only up to 300 health center renovations. Yet the task order states, “Preparation of drawings . . . of these 300 health facilities will be a key deliverable.” The project’s original contracting officer said this was not the first time Tetra Tech had “interpreted terms to accommodate themselves.”

As a result, Tetra Tech officials said they expect EHIP to renovate only 40 health centers, or 13 percent of the planned renovations. USAID/Ethiopia officials said they expect to construct only 28 new health centers, or 33 percent of the planned new construction. This reduction will decrease the number of beneficiaries from 9.6 million to 1.7 million.

New Health Centers Did Not Address Community Needs. Despite planning to build larger health centers, the centers’ size and functionality did not always meet the needs of the communities where they were being built. For example, one center under construction in September 2013 was less than 4 miles from two existing health centers. Officials at one of those said they only see about 15 patients a day and have never identified a patient with HIV. In another example, the mission constructed a large health center in a rural area, while the Ethiopian Government was building a much smaller health center in a more densely populated area, as shown in Appendix IV.

These situations occurred because USAID/Ethiopia and Tetra Tech did not address concerns that the director of Ethiopia’s Health Infrastructure Directorate raised on June 1, 2011. Although this meeting occurred before cost estimates were made, the director correctly assumed that increasing the size of a health center would increase its cost. He suggested that larger health centers could be built in centralized locations and smaller health centers could be built elsewhere. However, USAID/Ethiopia and Tetra Tech did not heed this advice and built larger health centers in locations that only needed the smaller ones.



This prototype health center at Jaradado is more than twice as big as a government-standard facility. (Photos by RIG/Pretoria, September 2013)

Building larger health centers than necessary wasted funds that could have been used for other health centers or renovations. Additionally, to fully utilize the larger health center, the Ethiopian Government will need to allocate additional staff and equipment—both of which may not be needed in these rural locations.

Planned Renovations Excluded Sites With the Most Need. When USAID/Ethiopia and Tetra Tech were deciding which health centers to renovate, they excluded health centers that were not considered structurally sound. Mission officials said they received guidance from the Office of the Global AIDS Coordinator stating that renovations cannot include new building construction. They interpreted this to mean that if a building was not structurally sound, they could not replace that building, nor could they add a building to an existing health center as part of a renovation.

However, the guidance provided only defines renovations as projects with existing facilities and did not preclude USAID from constructing an additional building at an existing facility, or changing its square footage or infrastructure. We could not determine why USAID/Ethiopia interpreted the guidance this way because these decisions were made before the current official began managing the program.

Excluding renovations at health centers that were not structurally sound eliminated the most needed improvements. For example, Meshenti Clinic in Amhara used a mud and stick building with an unfinished roof, shown in the photo on the left below, because the Ethiopian Government cut off funding for the project after constructing only two of the three buildings (as shown in the photo below on the right). The clinic also lacked running water because its water tank had been cracked for more than a year without being repaired. The staff said they sometimes treat 80 to 100 patients a day. Their activities include preventing mother-to-child transmission of HIV. This clinic should be a prime candidate for renovation, but it would be excluded because it would involve building a new structure.



The staff at the Meshenti Clinic works in a building with an open roof (left), while construction on a new facility (right) has stopped for lack of funds. (Photos by RIG/Pretoria, September 2013)

New health centers that were unnecessarily large and costly, as well as renovations that were over budget and did not target the most needed improvements, have decreased the impact of construction activities significantly. In addition, serious problems exist with the health centers that Global Fund and the Ethiopian Government built to address the country's shortage of health care facilities—problems such as lack of water and electricity connections, space, and infectious disease control. Therefore, this audit makes the following recommendations.

Recommendation 3. *We recommend that USAID/Ethiopia determine whether the fixed fee in the task order with Tetra Tech under the Ethiopia Health Infrastructure Program can be reduced because the scope of work will not be completed as planned, document this determination, and recover the excess amount from Tetra Tech.*

Recommendation 4. *We recommend that USAID/Ethiopia meet with the Ethiopian Government's Federal Ministry of Health, determine which type of construction activity is most needed, and document this determination.*

Recommendation 5. *We recommend that USAID/Ethiopia reassess decisions about the type of new health centers to construct, the dollar value of renovations, and the budget allocation between renovations and new health centers, and revise the plan for future construction and renovation activities to best address current needs in Ethiopia.*

Tetra Tech Activities Were Outside Scope of Work

USAID, like other federal agencies, uses CORs to provide technical direction for activities conducted under federal contracts. The contracting officer for the mission's contract with Tetra Tech authorized the COR to provide limited technical direction, including shifting emphasis among work areas, as long as the direction is within the scope of the contract, in writing, and does not affect the cost or quantity of the deliverables. The letter designating these responsibilities to the COR specifically states that any changes to the scope of work "are the sole responsibility of the [contracting officer]."

The scope of work in the Tetra Tech task order included design activities. As part of these activities, Tetra Tech was instructed to review the two government-standard design sets and, if possible, use them in designing the new health centers. If Tetra Tech could not use them because of different requirements for USAID-funded structures or other reasons, the COR was to negotiate an "appropriate process" to modify the design sets. The task order did not allow Tetra Tech to develop new designs before these negotiations.

However, the COR allowed Tetra Tech to develop a new health center design despite objections from contracting officials. On April 8, 2011, Tetra Tech told mission officials it could not use the government-standard plans and proposed drafting new ones. At the time, the acquisition and assistance specialist doubted whether this was within the scope of work, but the COR said it was. On June 29, 2011, the then-contracting officer (who was not present at the April meeting) specifically instructed Tetra Tech to return to the government-standard design to meet the budget of \$250,000 to \$300,000 per center. However, after a new contracting officer assumed responsibility for this task order in August 2011, meeting minutes indicate that Tetra Tech and the COR did not even discuss the standard design, favoring Tetra Tech's prototype design instead (various iterations of these designs are shown in Appendix III).

Tetra Tech activities expanded beyond the scope of work because the COR at the time went beyond his authority to support these changes. There was no indication that the contracting officer consented to them, even though the task order with Tetra Tech states that the contracting officer is the only person authorized to make changes to the order. It also states that if Tetra Tech changes the project based on the direction of others, no adjustment will be made to the task order, including the price.

As a result, Tetra Tech neglected key deliverables such as the renovation designs for 300 health centers, which the task order identified as the “majority of the design work.” In addition, a considerable portion of time and budget were allocated to preparing the prototype health center design and providing quality assurance for construction activities. However, it is difficult to determine how much because 67 percent of expenditures were allocated to “management and office costs,” rather than one of the four enumerated tasks. Although the COR in this case has left USAID, better documentation of technical direction given to Tetra Tech would improve the contracting officer’s ability to identify when such direction exceeds the COR’s authority. Therefore, we make the following recommendations.

Recommendation 6. *We recommend that USAID/Ethiopia determine, in writing, whether health center prototype activities that Tetra Tech conducted were within its scope of work, and, if not, take necessary corrective action.*

Recommendation 7. *We recommend that USAID/Ethiopia determine the allowability of costs incurred to design the prototype health center, and recover from Tetra Tech the amount determined to be unallowable.*

Recommendation 8. *We recommend that USAID/Ethiopia implement written procedures to document technical direction provided by contracting officer’s representatives, and communicate these directions to contracting officers.*

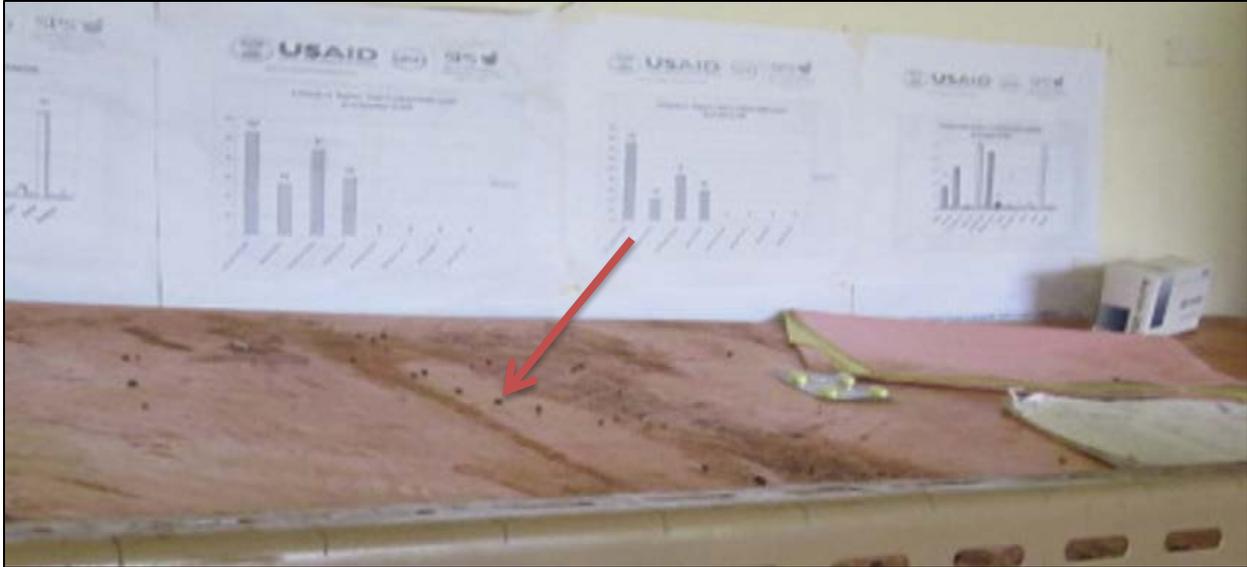
Commodity Storage Conditions Were Not Good, and Inventory Was Poorly Documented

FBP seeks to improve the nutritional, clinical, and functional well-being of its beneficiaries through periodic nutritional assessment, counseling, and providing food. Therapeutic food for severely malnourished patients is called “Plumpy Nut,” and supplemental food for moderately malnourished patients is called “Plumpy Sup.” Beneficiaries are pregnant and lactating women, people living with HIV and AIDS, and children who are orphaned or vulnerable through HIV/AIDS. The project reported supporting more than 400 health facilities and distributing more than 34,000 cartons of food supplements.

Standards for Internal Control in the Federal Government states that organizations should safeguard vulnerable assets by periodically comparing inventory counts with control records. The publication also states that transactions should be recorded promptly to be useful. Furthermore, according to USAID Deliver’s guidelines for properly storing health commodities, supplies should be stored in a dry, ventilated, well-lit, clean, and disinfected room.

However, USAID/Ethiopia did not make sure pharmacies had adequate controls to safeguard more than \$5 million in food provided through FBP. The audit team inspected stock rooms and dispensary units at five health facilities, none of which had proper controls over their inventory. Food was stored in damp spaces and directly on the floor, and some boxes were opened before the food was needed. The audit team found that mice had eaten packets of food in two of the facilities.

At Injibara Health Center in Amhara, the team saw mouse droppings in the food storage area, as shown in the photo on the next page, and mice had chewed on packages of food.



The brown specks on this shelf in the pharmacy at Injibara Health Center are mouse droppings. (Photos by RIG/Pretoria, September 2013)

At the Adare Hospital in Southern Nations, Nationalities, and Peoples' Region (SNNPR), we discovered several cartons of food supplements that mice had also chewed on. The pharmacy technician said she sprinkled seizure medication on some of the food packets to kill the mice. The USAID/Ethiopia representative, who is a doctor, said that the medication was not a risk for patients, but using it this way was a strange approach to addressing the pharmacy's rodent problem. There were mouse droppings in both rooms where food was stored. The rooms were damp and dirty; one had no windows or lighting, and the other had a leaky ceiling. As shown in the photos below, some food was stored with broken office equipment.



USAID-funded food supplies were not stored safely in Adare Hospital (left). At Injibara Health Center, mice chewed through bags of food also paid for by USAID (right). (Photos by RIG/Pretoria, September 2013)

The health facilities we visited either did not maintain inventory records or maintained them inaccurately. Furthermore, inventory records were not reconciled with dispensing records to make sure all the food leaving the health facility was actually given to patients. These widespread, significant internal control weaknesses precluded effective commodity management.

We found 1,650 packets of Plumpy Sup in Injibara Health Center's dispensary that were not recorded in the inventory. Similarly, inventory records were not accurate at Adare Hospital in SNNPR. Although hospital records showed that 7,905 packets of Plumpy Nut should have been available, a physical count confirmed that only 6,300 were on hand—a shortage of 1,605 packets. Records also showed that 25,350 packets of Plumpy Sup should have been available, yet only 19,200 packets were counted—a shortage of 6,150 packets.

Finally, stock cards at Debre Tabor Hospital in Amhara showed that 600 packets of food were dispensed during a 2-week period, yet the dispensing record showed that 2,523 packets were handed out. Other stock records indicated that the dispensary had gone through at least 2,800 packets, leaving another 277 unaccounted for.

These instances occurred because dispensaries lacked pertinent internal control policies and procedures to safeguard food commodities. For example, pharmacy technicians at dispensaries without records said they were not told to keep any records. Other technicians said they were unaware that they should reconcile differences between their stock count and the inventory records. Similarly, neither pharmacy nor FBP employees said they considered reconciling prescriptions with outgoing food commodities.

Save the Children and USAID did not monitor storage conditions and recordkeeping adequately. Although officials from Save the Children visited health facilities regularly, they did not identify these problems during their visits to health facilities. They said they did not have enough advisers to review pharmacy operations as thoroughly as this audit. The project's COR had not visited activity sites outside of the capital in more than a year, and the report for her last visit outside Addis Ababa on August 7, 2012, did not mention a review of storage conditions or distribution records.

As a result, food intended for sick patients was either wasted or unaccounted for. In the examples above, nearly 10,000 packets worth more than \$4,000 were unaccounted for. Without adequate internal controls and oversight, USAID-funded commodities are at risk of misuse, theft, or loss. To address these issues, this audit makes the following recommendations.

Recommendation 9. We recommend that USAID/Ethiopia implement policies and procedures to confirm that health facilities that manage USAID-funded commodities maintain and periodically reconcile their inventory records.

Recommendation 10. We recommend that USAID/Ethiopia require Save the Children to include documented reviews of storage conditions and recordkeeping in its periodic site visits.

Recommendation 11. We recommend that USAID/Ethiopia ask Ethiopia's Federal Ministry of Health to issue explicit guidance about the proper, safe storage of all commodities (especially food and medicines) to all health facilities that manage USAID-funded commodities.

Internal Controls Did Not Prevent or Detect Ineligible Costs

Standards for Internal Control in the Federal Government state, “Internal control should be designed to provide reasonable assurance regarding prevention of or prompt detection of unauthorized acquisition, use, or disposition of an agency’s assets.”

On February 20, 2003, the U.S. Government required that new foreign assistance agreements stipulate that the assistance is exempt from taxation, including value-added tax.² Further, the Government Accountability Office (GAO) found that, as of FY 2003, the agreement between the U. S. and Ethiopian Governments prohibited the payment of tax on U. S. Government foreign assistance.³ Accordingly, Section H.7 of the Tetra Tech task order states, “Sales tax and customs duties shall not constitute allowable costs under this contract.” The order requires Tetra Tech and its subcontractors to submit receipts showing taxes paid so USAID/Ethiopia’s financial management office can deduct those amounts from contract reimbursements.

Despite these requirements, Tetra Tech was claiming taxes on its invoices, and the mission was paying for them. Tetra Tech employed local architecture and engineering firms to help with the contract, and it paid them \$863,419 through June 30, 2013. Consistent with standard practice in Ethiopia, these firms included value-added tax in their invoices to Tetra Tech. Tetra Tech paid these invoices, including the tax, and claimed these costs under its cost reimbursement task order with USAID/Ethiopia.

USAID did not have controls in place to prevent or detect ineligible costs for contracts with for-profit companies. The controller said he relies on CORs to monitor vouchers for ineligible costs, but invoices do not always include enough detail for CORs to identify them. However, the audit identified more than \$66,000 of value-added tax included in the \$863,419 paid to local firms, which CORs did not identify because they did not have the financial background required to do so. For example, to identify \$9,301 of the taxes claimed in January 2012, auditors tied \$70,065 claimed on page 28 of the invoice with the support on page 37, which showed that \$9,301 of this \$70,065 was for tax. Without looking at page 37, there was no indication whether the \$70,065 included tax.

Because of the need to reconcile amounts to identify ineligible costs, CORs may need assistance from financial management office personnel. The controller also said USAID relies on financial audits to identify questioned costs that are not identified by CORs. However, the most recent financial audit of Tetra Tech was in 2010 and did not include the task order, which USAID/Ethiopia had awarded in December of that year.

Because of these improper controls, Tetra Tech was allowed to claim nearly \$100,000 worth of ineligible costs from USAID. Invoices that Tetra Tech submitted to USAID/Ethiopia showed \$66,663 claimed for value-added tax. Because these taxes raised the cost of subcontracts, Tetra Tech’s reimbursements for subcontract management, which is a percentage of subcontract costs, were also higher. Not all invoices that included taxes were submitted with Tetra Tech’s invoices; it likely claimed more than \$32,000 related to billing from other

² Public Law 108-7, Section 579.

³ GAO, *Foreign Assistance: USAID and the Department of State Are Beginning to Implement Prohibition on Taxation of Aid* (GAO-04-314R), February 2004.

subcontractors. Finally, invoices only included receipts for subcontractors, but taxes were likely paid for other direct expenses that may have been reimbursable. For example, USAID/Ethiopia reimbursed Tetra Tech \$4,710 for a fiber optic Internet connection, which likely included several hundred dollars of value-added taxes.

Further complicating the matter is that USAID/Ethiopia helped Tetra Tech claim more than \$35,000 back from the Ethiopian Government. The mission's process and personnel that help with claiming tax back was separate from those used to reimburse contractors. As a result, the mission did not check to see whether Tetra Tech was paid for taxes by both the Ethiopian and U.S. Governments. To address this issue, this audit makes the following recommendations.

Recommendation 12. *We recommend that USAID/Ethiopia determine the allowability of \$66,663 of ineligible questioned costs related to the reimbursement of value-added tax to Tetra Tech in contravention to the terms of the contract, and recover from Tetra Tech any amount determined to be unallowable.*

Recommendation 13. *We recommend that USAID/Ethiopia contract with an independent accounting firm to conduct an agreed-upon procedures engagement to determine the full amount of value-added tax claimed by Tetra Tech under Task Order AID-663-TO-11-00001.*

Recommendation 14. *We recommend that USAID/Ethiopia implement procedures to prevent or detect ineligible costs related to the reimbursement of value-added tax.*

Data for Food by Prescription Were Not Reliable

USAID/Ethiopia must have reliable data to inform decision-making. USAID's Automated Directives System 203.3.11.1, "Data Quality Standards," states that reliable data reflects a "stable and consistent data collection [process]." The GAO's *Standards for Internal Control in the Federal Government* states that good internal controls document key events and that this documentation should be readily available.

Despite this guidance, the results Save the Children reported for FBP in FY 2012 in two regions were not reliable. For example, in the fourth quarter of FY 2012, FBP reported that more than 82,000 beneficiaries were assessed for malnutrition and given nutritional counseling in Amhara and SNNPR. However, the process used to collect this information was impossible to verify. The source data for nutritional assessment and counseling sessions were a series of tally marks made by the health facility employees who provided the assessment and counseling, but patients may have received these services several times within that period. FBP's regional monitoring and evaluation officer reduced the number of tally marks to estimate the number of people who may have been assessed and counseled. However, because FBP officials could not explain how they came up with these numbers, we could not verify the results.

Additionally, Save the Children reported providing therapeutic or supplementary food to 7,986 people in Amhara and SNNPR. However, Save the Children's records varied from health facility records at all five sites visited. Although results could not be projected to the population, differences at each health facility were between 12 and 127 percent, as shown in Table 2.

Table 2. Results Reported and Results Verified (Audited)

Health Facility	Number of Patients Receiving Food Supplements Reported by FBP	Number of Patients Receiving Food Supplements Verified at Health Facilities	Difference	Difference (%)
Adare Hospital	22	50	28	127
Adet Health Center	23	39	16	70
Debre Tabor Health Center	28	22	(6)	(21)
Debre Tabor Hospital	74	83	9	12
Injibara Health Center	29	34	5	17
Total	176	228	52	30

Generally, officials did not maintain adequate records at all the health facilities visited. Records were disorganized, and it took a lot of time and effort for officials to show how the reported results were developed. Additionally, health facility employees and Save the Children officials often were confused about how to interpret data in patient registers or when the reporting period started and ended for the quarter because there was no consistency in how health facility staffs completed the registers. These problems occurred despite more than \$22,000 that Save the Children spent on new patient registers that were designed specifically to simplify the process of monitoring clients and assessing the outcomes of the nutrition program.

The reported results included in our sample were unreliable primarily because FBP did not implement proper controls over its results reporting practices. Health facility employees in Amhara prepared quarterly results when they were notified by FBP's monitoring and evaluation officer, which varied by several days between health facilities. As a result, each health facility was reporting on a different reporting period. For example, FBP collected the results from July 16, 2012, to September 21, 2012, for the quarter ended September 30, 2012, for Debre Tabor Hospital in Amhara, thereby underreporting by 24 days. This inconsistent process affected the data collection in Amhara, a region that, according to FBP reporting, included 24 percent of the patients assisted by the project.

Furthermore, as discussed above, the use of tally marks for nutritional assessments and counseling did not account for repeat patient visits within a period. Although the audit reviewed results at only five facilities, this process was used at all of those facilities, which were in two different regions of Ethiopia; this indicates that FBP designed the system improperly.

Inadequate monitoring also contributed to the problem. Save the Children employees said they visit sites every other month, but they could not provide a single site visit report that included data verification. Also, the COR said she would like to travel to sites quarterly, but she had not visited a site outside Addis Ababa in more than a year. She attributed this to her busy work schedule, but according to the USAID/Ethiopia mission order on performance monitoring and evaluation, conducting quarterly site visits is an important part of her job.

As a result, USAID may have used unreliable information to make decisions about the program. For example, in March 2013, the contracting officer rated the program's performance as satisfactory, adding that it had exceeded its targets for the most part. To address these issues, this audit makes the following recommendations.

Recommendation 15. *We recommend that USAID/Ethiopia implement a monitoring plan for its HIV activities that includes documented periodic site visits.*

Recommendation 16. *We recommend that USAID/Ethiopia require Save the Children to correct its reporting system to provide reliable data about the number of patients assessed for malnutrition, counseled, and provided with therapeutic food, and document the resolution.*

EVALUATION OF MANAGEMENT COMMENTS

In its comments on the draft report, USAID/Ethiopia agreed with and made decisions on all 16 recommendations. Based on management's comments and supporting documentation provided, management decisions have been reached on Recommendations 1 through 11 and 13 through 16, and final action has been taken on Recommendations 7, 9, 10, and 14. Recommendation 12 remains without a management decision pending the contracting officer's determination of questioned costs allowed and/or disallowed. We also disagree with the management decisions on Recommendations 4 and 5. Our detailed evaluation of management comments follows.

Recommendation 1. USAID/Ethiopia agreed to determine whether IRD must reimburse USAID for its costs caused by the delayed completion of the first five health centers constructed, and is negotiating for monetary and nonmonetary concessions associated with construction delays at four sites. The mission excluded any costs associated with the fifth construction site from its negotiations because all activities associated with it were completed before this audit. The target date for the completion of negotiations is October 31, 2014. We acknowledge management's decision.

Recommendation 2. USAID/Ethiopia agreed to determine whether to include electricity and water connections in the scope of work for constructing new health centers. The mission determined that the current task orders are inappropriate for performing electric and water assessments and will issue a separate task order to acquire these services for detailed assessments and connections of utilities for all new health centers. In subsequent correspondence, the mission clarified that the separate procurement action for electricity and water would cover all 28 health centers. The target date for the completion of this task is September 30, 2014. We acknowledge management's decision.

Recommendation 3. USAID/Ethiopia agreed to determine whether the fixed fee in the task order with Tetra Tech could be reduced because the scope of work will not be completed as planned. The Office of Acquisition and Assistance is in the process of revising the scope of activities under the agreement, and any changes will be incorporated into the contract through a formal contract modification. The target date for the completion of this task is October 31, 2014. We acknowledge management's decision.

Recommendation 4. USAID/Ethiopia agreed to meet with the Ethiopian Government to determine which type of construction activity is most needed and document this determination. In its comments, the mission referred to several meetings U.S. Government officials had with Ministry of Health officials before the audit. Mission officials said they then sent an e-mail on April 17, 2014, to confirm that the ministry is satisfied with the current design of the health centers.

While we acknowledge management's decision, we disagree with it because the meetings discussed all took place before the audit. The only action taken afterward was sending an e-mail, which by itself is not sufficient documentation of the determination of which type of construction activity is most needed. Management's comments do not describe any planned

action they would take if the director of infrastructure for the Ministry of Health is not satisfied with the current design. In addition, the e-mail only asked for confirmation of the Ethiopian Government's satisfaction with the current design, but did not ask about other issues raised in the report, such as the location of new health centers discussed on page 8 and renovations that did not target the most dilapidated sites as discussed on page 9. For OIG to drop its disagreement, a revised management decision should address these other problems.

Recommendation 5. USAID/Ethiopia agreed to reassess decisions about the type of new health centers to construct, the dollar value of renovations, and the budget allocation between renovations and new health centers, and to revise its plan for future construction and renovation accordingly. The mission stated that the actions taken to address Recommendation 4 include actions that will address this recommendation.

Although we acknowledge management's decision, we disagree with it in part for the same reasons we disagreed with the decision on Recommendation 4. The intent of this recommendation was to spur the mission into developing a plan to focus on those activities that can yield the greatest impact for a given level of investment. For OIG to drop its disagreement, a revised management decision could document reassessments of decisions made in the meetings mentioned in response to Recommendation 4. For example, although the mission states that "Despite negotiating a facility design that was more basic than the . . . standard," the Ethiopian Government construction site we visited (below) was much more basic than health centers constructed by USAID/Ethiopia, such as the one on page 8. Perhaps the mission can use the standard used by the Ethiopian Government.



This health center that the Ethiopian Government was building in Alemnber is more basic than USAID/Ethiopia's health centers. (Photo by RIG/Pretoria, September 2013)

Recommendation 6. USAID/Ethiopia agreed to determine whether health center prototype activities that Tetra Tech conducted were within its scope of work. Based on management's comments, we deleted the portion of Recommendation 6 in the draft report pertaining to quality assurance.

The mission received guidance and authorization from OAA/Washington to change its original scope of work, and it is in the process of making them. The target date for final action is July 31, 2014. We acknowledge management's decision.

Recommendation 7. USAID/Ethiopia agreed to determine the allowability of costs incurred to design the prototype health center. As with Recommendation 6, we deleted the portion of Recommendation 7 in the draft report pertaining to quality assurance. The mission determined that the costs incurred to design the prototype are allowable because of the actions taken to address Recommendation 6. Based on management comments, a management decision has been reached and final action taken.

Recommendation 8. USAID/Ethiopia agreed to implement procedures to document technical direction provided by CORs. The mission stated that the Office of Acquisition and Assistance is currently drafting a mission order to address COR documentation responsibilities. The target date for completion is August 31, 2014. We acknowledge management's decision.

Recommendation 9. USAID/Ethiopia agreed to implement policies and procedures to confirm that health facilities managing USAID-funded commodities maintain and periodically reconcile their inventory records. Since the audit, Save the Children has started tracking food commodities by packets and has included inventory monitoring as part of its periodic supervision. Furthermore, USAID is helping the Ethiopian Government's Pharmaceuticals Fund and Supply Agency implement standard operating procedures that will also address reconciling inventory. The mission provided copies of recordkeeping tools used to track and reconcile inventory. Based on management's comments and the supporting documentation provided, a management decision has been reached and final action taken.

Recommendation 10. USAID/Ethiopia agreed to require Save the Children to include documented reviews of storage conditions and recordkeeping in its periodic visits. Save the Children supervisors and mentors will review and document stock management, including rodent control and storage conditions, as part of their periodic site visits. The mission provided a checklist that includes sections on rodent control and storage conditions to document the results of these visits. Based on management's comments and the supporting documentation provided, a management decision has been reached and final action taken.

Recommendation 11. USAID/Ethiopia agreed to ask Ethiopia's Federal Ministry of Health to issue explicit guidance on safe, proper storage of foods and medicines to facilities that store and manage USAID-funded commodities. The target date for completion is May 30, 2014. We acknowledge management's decision.

Recommendation 12. USAID/Ethiopia agreed to determine whether questioned costs identified were allowable. The mission plans to issue a notice of debt collection to Tetra Tech for \$66,663 regarding the ineligible question costs identified, and based on the response, the mission will determine how much of this amount is unallowable. The target date for the completion of this activity is October 31, 2014.

However, in accordance with ADS 595.3.1.2.a, a management decision cannot be acknowledged on a questioned cost recommendation until the contracting officer specifies the amount of questioned costs allowed and/or disallowed and a target date for collection of disallowed amounts. This recommendation remains without a management decision.

Recommendation 13. USAID/Ethiopia agreed to contract an independent accounting firm from the RIG's approved auditor list to conduct an agreed-upon procedures engagement to determine the full amount of value-added tax claimed by Tetra Tech under Task Order AID-663-TO-11-00001. Final action on is expected by September 30, 2014. We acknowledge management's decision.

Recommendation 14. USAID/Ethiopia agreed to implement procedures to prevent or detect ineligible costs related to the reimbursement of value-added tax. The mission stated that the controller has met several times with implementers to reinforce procedures to recover value-added tax. Furthermore, mission staff including CORs were reminded via email of tax reimbursement procedures on April 25, 2014. Based on management's comments and supporting documentation provided, a management decision has been reached and final action taken.

Recommendation 15. USAID/Ethiopia agreed to implement a monitoring plan for its HIV activities that includes documented, periodic site visits. The mission stated that it will implement a plan for CORs to perform quarterly site visits, and the mission's Office of Financial Management plans to make sure they adhere to this plan. The target date for the completion of this activity is September 30, 2014. We acknowledge management's decision.

Recommendation 16. USAID/Ethiopia agreed to require Save the Children to correct its reporting system. The mission stated that Save the Children has already met with Regional Health Bureau officials to improve data collection and reporting. Save the Children will use registers to list patients assessed for malnutrition and not tally marks as previously done. The mission's Office of Financial Management and the technical team plans to visit Save the Children to verify that this recommendation has been implemented. The target date for final action is September 30, 2014. We acknowledge management's decision.

SCOPE AND METHODOLOGY

Scope

RIG/Pretoria conducted this audit in accordance with generally accepted government auditing standards. They 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 purpose of this audit was to determine whether USAID/Ethiopia's HIV care and treatment activities were achieving their main goals under the partnership framework. During FY 2012 and the first two quarters of FY 2013, USAID/Ethiopia obligated \$116.9 million and spent \$113.8 million toward care and treatment projects. This included \$24.2 million spent toward the four projects selected. Because this was a performance audit, which focused on program implementation rather than financial transactions, the audit did not include a financial review of the \$24.2 million in expenditures except for the \$4.3 million that Tetra Tech spent, which we reviewed more thoroughly after seeing that it was being reimbursed for value-added tax.

In selecting the projects and programs to include in the scope, we excluded five that had been included in previous audits and two that focused on orphans and vulnerable children and preventing mother-to-child transmission of HIV, because they deal with distinct subgroups. From the remaining ten projects, we selected four that were implemented by IRD, Management Sciences for Health, Save the Children, and Tetra Tech.

In planning and performing the audit, we assessed relevant controls the mission used to manage the program or project. This included assessing the quality of data reported by the mission and its implementing partners, reviewing the organizational structures of both USAID/Ethiopia and the partners, and mission monitoring of program and project implementation. Furthermore, we assessed the acquisition and contracting practices of the mission and the financial oversight of the program.

As part of this audit, we reviewed the following documentation:

- Program and project agreements
- Program and project work plans
- Partner evaluations and data quality
- Partners' progress reports
- Performance monitoring plans
- Available USAID and partner trip reports
- Policies and procedures to safeguard program assets and resources
- FY 2012 certification required under the Federal Managers' Financial Integrity Act of 1982
- Contractor invoices
- Available meeting minutes
- Global Fund Inspector General audit report related to health center construction in Ethiopia

We conducted audit fieldwork from August 21 to August 27, and September 16 to September 25, 2013. We interviewed key mission staff, implementing partner staff, Ethiopia Federal Ministry of Health officials, the Global Fund representative for Ethiopia, and auditors

from the U.S. Department of Health and Human Services Office of Inspector General. We conducted the audit at USAID/Ethiopia and at partner offices in Addis Ababa, and at regional offices in Amhara and SNNPR.

Methodology

To determine whether USAID/Ethiopia's HIV care and treatment activities were achieving their main goals under the partnership framework, we evaluated the mission's strategy, how that strategy was coordinated with other stakeholders in Ethiopia, how projects were selected, and the effectiveness of the projects selected for audit.

To determine the effectiveness of FBP and ENHAT-CS, we reviewed USAID/Ethiopia's planning decisions that were made during design and the progress that had been made so far, and we visited sites to observe the projects' impact on health centers in Ethiopia. We met with USAID/Ethiopia to discuss planning decisions, including how the projects contributed toward objectives in the partnership framework.

Mission officials also identified the accomplishments of each program and project, as corroborated by our review of performance reporting and meetings with implementing partner officials. We visited six FBP-assisted health centers in Amhara, five of which ENHAT-CS also was assisting. We visited one site in SNNPR that FBP was assisting. During these visits, we interviewed staff members from implementing partners and health services, and Ministry of Health officials. We also tested reported results, and inspected USAID-constructed health centers to verify that activities were implemented, monitored, and evaluated as required. The indicators tested were *Number of clients assessed for malnutrition*, *Number of clients who received nutritional counseling*, *Number of clients who received therapeutic and/or supplementary food*, and *Number of new [patients on antiretroviral treatment]*.

To determine the effectiveness of EHIP, we completed similar steps to those described for FBP and ENHAT-CS. We also reviewed Global Fund's health center construction to determine how it affected USAID/Ethiopia's construction activities. We reviewed meeting minutes and other documentation to determine why the number of health centers constructed and renovated was reduced so drastically. We visited one renovation site in Amhara and three construction sites in SNNPR. During these visits, we met with construction crews, observed whether key aspects of construction were finished, and discussed with them whether construction would be completed on schedule.

In selecting a judgmental sample of activities to visit, we chose activities that were in progress during our fieldwork, located in areas where other key activities were being implemented, and representative of the mission's HIV care and treatment activities. Specifically, new health center construction was ongoing only in SNNPR, and renovations were ongoing only in Amhara. Additionally, ENHAT-CS was active only in Amhara and Tigray. FBP had activities in five states, including Amhara and SNNPR, plus two city administrative regions. Site visits to all of the partner activities could be accomplished by visiting Amhara and SNNPR. Because site visits were selected judgmentally, the results and overall conclusions related to this testing were limited to the items tested and cannot be projected to the entire audit universe. We established a materiality threshold of 5 percent of the reported result.

MANAGEMENT COMMENTS



USAID | ETHIOPIA
FROM THE AMERICAN PEOPLE

April 25, 2014

MEMORANDUM

TO: Regional Inspector General/Pretoria, Robert W. Mason

FROM: USAID/Ethiopia Mission Director, Dennis Weller

SUBJECT: Response to the Audit of USAID/Ethiopia's HIV Care and Treatment Activities (Report Number 4-663-14-XXX-P)

USAID/Ethiopia received the draft version of the Audit of USAID/Ethiopia's HIV Care and Treatment Activities (Report Number 4-663-14-XXX-P) on March 20, 2014, which contains 16 audit recommendations. USAID/Ethiopia provides the following responses to all recommendations:

Recommendation 1. *We recommend that USAID/Ethiopia determine, in writing, whether International Relief and Development must reimburse USAID for its costs caused by the delayed completion of the first five health centers constructed under the Ethiopia Health Infrastructure Program.*

Response: The Mission concurs with this recommendation. USAID/Ethiopia is in the process of finalizing negotiations for both monetary and non-monetary (i.e. erection of fencing and installation of curbing) concessions associated with delays at four sites at no additional cost to the contract. The Mission has established a target date of **October 31, 2014** to complete negotiations. Construction activities at the fifth site were excluded from negotiations since all construction activities were completed prior to release of this audit report.

Recommendation 2. *We recommend that USAID/Ethiopia determine, in writing, whether to include electricity and water connections in the scope of work for constructing new health centers.*

Response: The Mission concurs with the recommendation and has determined that existing task orders issued under the health IQC are inappropriate for performing electric and water assessments. The Mission will issue a separate task order to acquire these specialized engineering services for detailed assessments and connections of utilities for all new health centers. Target date for completion of these actions is **September 30, 2014**.

Recommendation 3. *We recommend that USAID/Ethiopia determine whether the fixed fee in the task order with Tetra Tech under the Ethiopia Health Infrastructure Program can be reduced because the scope of work will not be completed as planned, document this determination, and recover the excess amount from Tetra Tech.*

Response: The Mission concurs with this recommendation. The Office of Acquisition and Assistance is in the process of revising the scope of activities performed under Tetra Tech's contract. Any changes to scope, costs or associated fees will have to be negotiated and incorporated into the contract via a formal contract modification. The Mission has established a target date of October 31, 2014 to ratify these changes.

Recommendation 4. *We recommend that USAID/Ethiopia meet with the Ethiopian Government's Federal Ministry of Health, determine which type of construction activity is most needed, and document this determination.*

Response: The Mission concurs with this recommendation and has, in fact, met many times since 2011 with the Federal Ministry of Health regarding the scope, scale and appropriateness of the Mission's construction portfolio. The Mission had initially discussed the possibility of constructing 96 health centers but eventually issued an IQC to IRD to construct "approximately 85 Government of Ethiopia (GOE)-standard health centers, approximately 9 regional warehouses, and renovation of approximately 300 health centers experiencing serious infrastructure problems in facilities". While the TEC for this contract was \$60 million, the Office of the Global AIDS Coordinator declined funding for construction starting in Country Operating Plan 2013 leaving the Mission with \$44 million to meet the construction needs originally proposed in the TEC. Despite negotiating a facility design that was more basic than the GOE standard stipulated in the IQC, the reduced budget, and cost overruns, ultimately resulted in a significantly reduced portfolio. Appreciating the disappointment of the Ministry, understanding that no future funding would be available, and responding to a new request from the GOE to construct a national blood bank, the Ambassador chaired a meeting with the Federal Ministry of Health (FMoH) to discuss what was possible within the Mission's now finite funding envelope. Subsequent to the meeting, the Ambassador sent a letter to the FMoH on July 8, 2013 documenting the agreement that USAID would build 28 new health centers, renovate 50 existing health centers, and construct a new national blood bank in Addis Ababa (See Attachment I). In addition, the COR sent a follow up email to the FMoH director for Infrastructure on April 17, 2014 asking him to confirm that the Federal Ministry of Health is satisfied with the current design of the health care centers. With the documentation of this action, we request that the recommendation be closed.

Recommendation 5. *We recommend that USAID/Ethiopia reassess decisions about the type of new health centers to construct, the dollar value of renovations, and the budget allocation between renovations and new health centers, and revise the plan for future construction and renovation activities to best address current needs in Ethiopia.*

Response: The Mission concurs with this recommendation and refers to the management response to Recommendation 4. The Mission views decisions related to the type of new health centers constructed, the dollar value of renovations, and the budget allocation between renovations and new health centers (Recommendation 5) in coordination with determination of which type of construction activity is most needed (Recommendation 4). Thus with the documentation provided in Recommendation 4, we request that this recommendation be closed.

Recommendation 6. We recommend that USAID/Ethiopia determine, in writing, whether health center prototype and quality assurance activities that Tetra Tech conducted were within its scope of work, and, if not, take necessary corrective action.

Response: The Mission concurs with this recommendation. Re: prototype activities: The contracting office consulted with OAA/Washington on how to include the design of health center prototypes. OAA/Washington responded with authorization to proceed with a change order against the original scope. This is being processed now and will be completed by July 31st, 2014.

Re: quality assurance: Task 3 under the Tetra Tech task order clearly outlines quality control/quality assurance as part of the scope, therefore, the Mission requests closure of this portion of the recommendation.

Recommendation 7. We recommend that USAID/Ethiopia determine the allowability of costs incurred to design the prototype health center and conduct quality assurance, and recover from Tetra Tech the amount determined to be unallowable.

Response: The Mission's Office of Acquisition and Assistance has determined that these costs are allowable due to actions described above (Recommendation 6) and requests closure of this recommendation.

Recommendation 8. We recommend that USAID/Ethiopia implement written procedures to document technical direction provided by contracting officer's representatives, and communicate these directions to contracting officers.

Response: The Mission concurs with this recommendation. COR appointment letters specifically address the duties and responsibilities of assigned CORs. In addition, the Office of Acquisition and Assistance is drafting a Mission Order, a process to be completed by August 31, 2014, to address COR documentation responsibilities.

Recommendation 9. We recommend that USAID/Ethiopia implement policies and procedures to confirm that health facilities that manage USAID-funded commodities maintain and periodically reconcile their inventory records.

Response: The Mission concurs with this recommendation. The discrepancies observed in supplementary food commodity inventories during the audit were a result of tracking food commodity stocks by cartons and not by packets. In response to the verbal audit briefings, Save the Children (the only USAID partner with health facilities that manage USAID-funded commodities) began tracking food commodities by packets and has included inventory monitoring on the checklist for periodic supportive supervision – a process that is now being implemented. In addition, as a longer-term, system wide solution, USAID is supporting the Ethiopian Government's Pharmaceuticals Fund and Supply Agency (PFSA) to implement Standard Operating Procedures (SOPs) for Integrated Pharmaceutical Logistics System (IPLS) that will also address reconciliation of inventory records for food commodities. With these actions, we request that the recommendation be closed.

Recommendation 10. *We recommend that USAID/Ethiopia require Save the Children to include documented reviews of storage conditions and recordkeeping in its periodic site visits.*

Response: The Mission concurs with this recommendation. A section on stock management, including rodent control and storage conditions, has been added on the supervisory check list for Food by Prescription. Supervisors and mentors must complete this section on every visit. With this action, we request that the recommendation be closed and also note that this project is ending September 30th, 2014.

Recommendation 11. *We recommend that USAID/Ethiopia request that Ethiopia's Federal Ministry of Health issue clear and explicit guidance regarding the proper and safe storage of all commodities (especially food and medicines) to all health facilities that manage USAID-funded commodities.*

Response: The Mission concurs with the intent of this recommendation and will request Ethiopia's Federal Ministry of Health (FMOH) to issue clear and explicit guidance regarding the proper and safe storage of all commodities (especially food and medicines) to all facilities that manage USAID-funded commodities. USAID will also support the FMOH to finalize and implement the IPLS SOPs that are currently in draft form, to strengthen the Government of Ethiopia's capacity to respond to this recommendation. Target date for completion of these actions is May 30, 2014.

Recommendation 12. *We recommend that USAID/Ethiopia determine the allowability of \$66,663 of ineligible questioned costs related to the reimbursement of value-added tax to Tetra Tech in contravention to the terms of the contract, and recover from Tetra Tech any amount determined to be unallowable.*

Response: The Mission concurs with the recommendation. USAID/Ethiopia's Office of Acquisition and Assistance will issue a notice of debt collection to the contractor regarding identified questioned costs. Following their response the Contracting Officer will issue a final determination regarding the allowability of questioned costs. All costs identified as unallowable will be forwarded to the Office of Financial Management for collection through a notice of Bill of Collection. The Mission has established a target date of October 31, 2014 to resolve the eligibility of all questioned costs.

Recommendation 13. *We recommend that USAID/Ethiopia contract with an independent accounting firm to conduct an agreed-upon procedures engagement to determine the full amount of value-added tax claimed by Tetra Tech under Task Order AID-663-TO-11-00001.*

Response: USAID/Ethiopia concurs with the recommendation and will perform an independent assessment using agreed-upon procedures to determine the full amount of value-added-tax claimed by Tetra Tech under Task order AID-663-TO-11-00001. USAID/Ethiopia, therefore will solicit an independent accounting firm from the RIG approved auditor list to conduct the assessment. The target date for completion of the assessment is September 30, 2014.

Recommendation 14. *Implement procedures to prevent or timely detect ineligible costs related to the reimbursement of value-added tax.*

Response: The Mission concurs with the recommendation. USAID/Ethiopia notes that this finding relates to the reimbursement of VAT from January 2012 and, since arrival at post, the Controller

has already met with partners multiple times, reinforcing overall VAT reimbursement procedures. In addition, the Office of Financial Management has issued a reminder of VAT reimbursement procedures to all mission staff with an emphasis on AORs / CORS on April 25, 2014. As such, the Mission requests closure of this recommendation.

Recommendation 15. We recommend that USAID/Ethiopia implement a monitoring plan for its HIV activities that includes documented, periodic site visits.

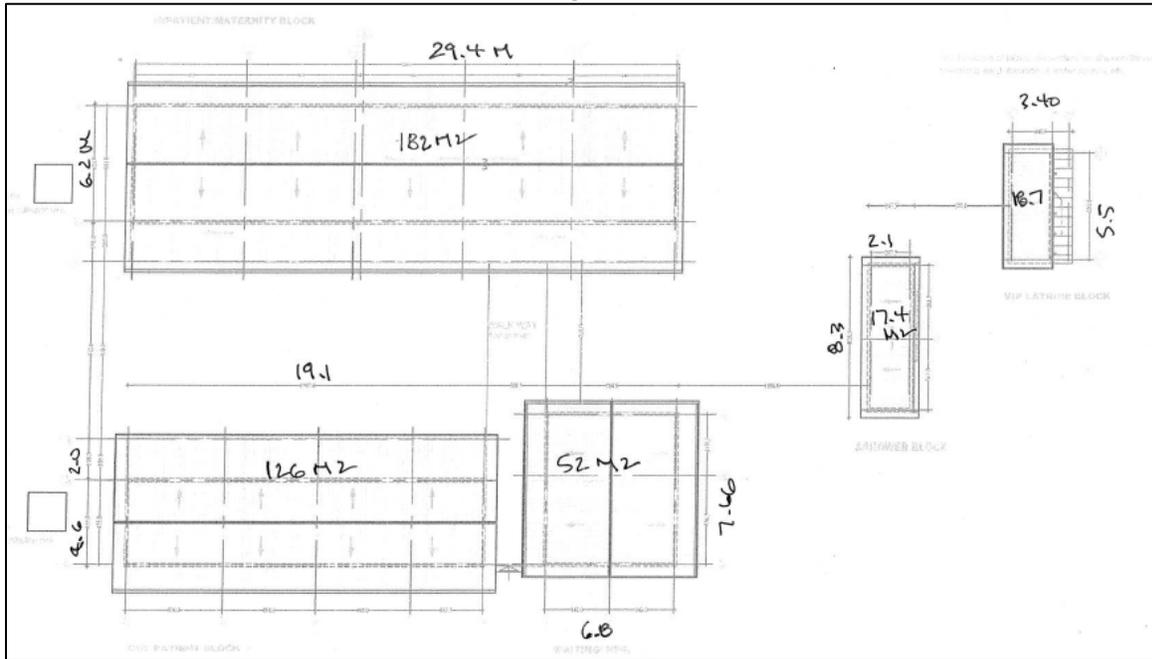
Response: The Mission concurs with this recommendation and recognizes the value of site visits. The “Food by Prescription” Contracting Agreement Officer’s Representative will adhere to the quarterly project site visit monitoring plan that covers the remaining project implementation period. OFM will review the adherence to this quarterly site visit plan and target date for completion of this activity is September 30, 2014.

Recommendation 16. We recommend that USAID/Ethiopia require Save the Children to correct its reporting system to provide reliable data about the number of patients assessed for malnutrition, counseled, and provided with therapeutic food, and document the resolution.

Response: The Mission concurs with this recommendation. Save the Children met with Regional Health Bureaus to agree on the reporting dates based on the Ethiopian calendar, to better capture accurate and reliable data and also to align with the national reporting cycle for the Health Management Information System. Save the Children will no longer report patients assessed for malnutrition using tally sheets but will use patient registers to capture this information. A visit will be conducted by OFM and the technical team to verify that this recommendation has been implemented. The target date for completion of this activity is September 30, 2014.

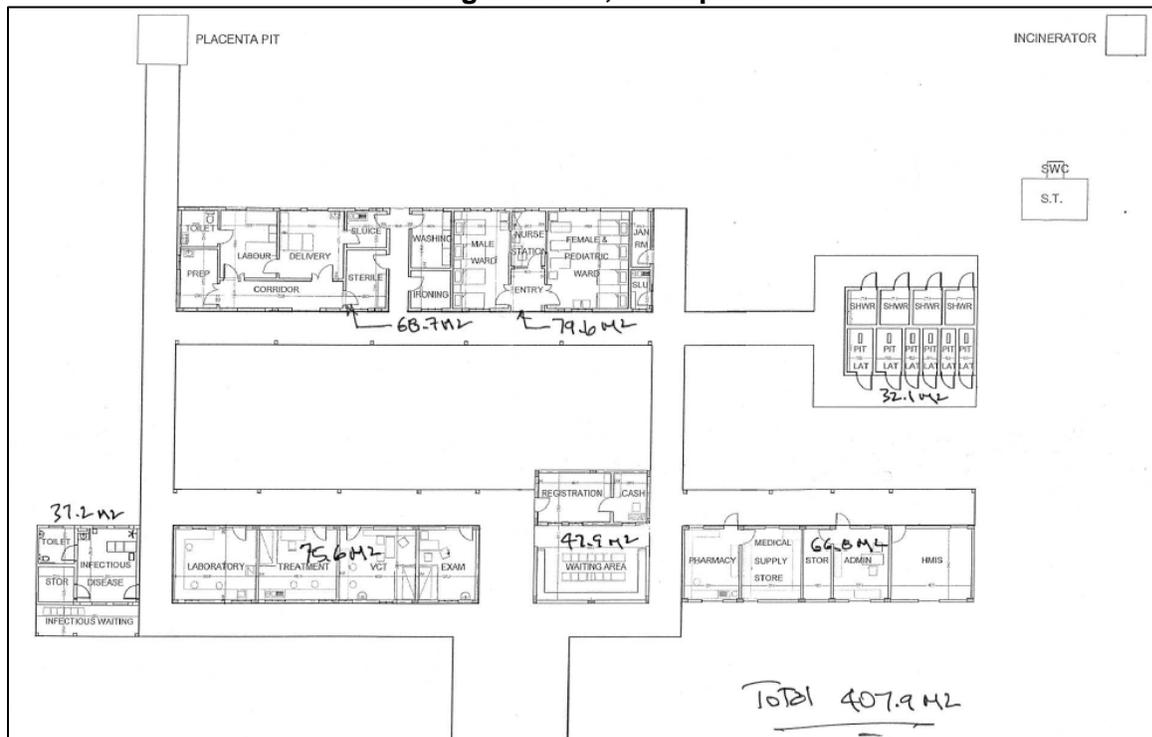
Health Center Designs

Figure III-1. Original Type B Health Center With Five Structures Totaling 4,263 Square Feet



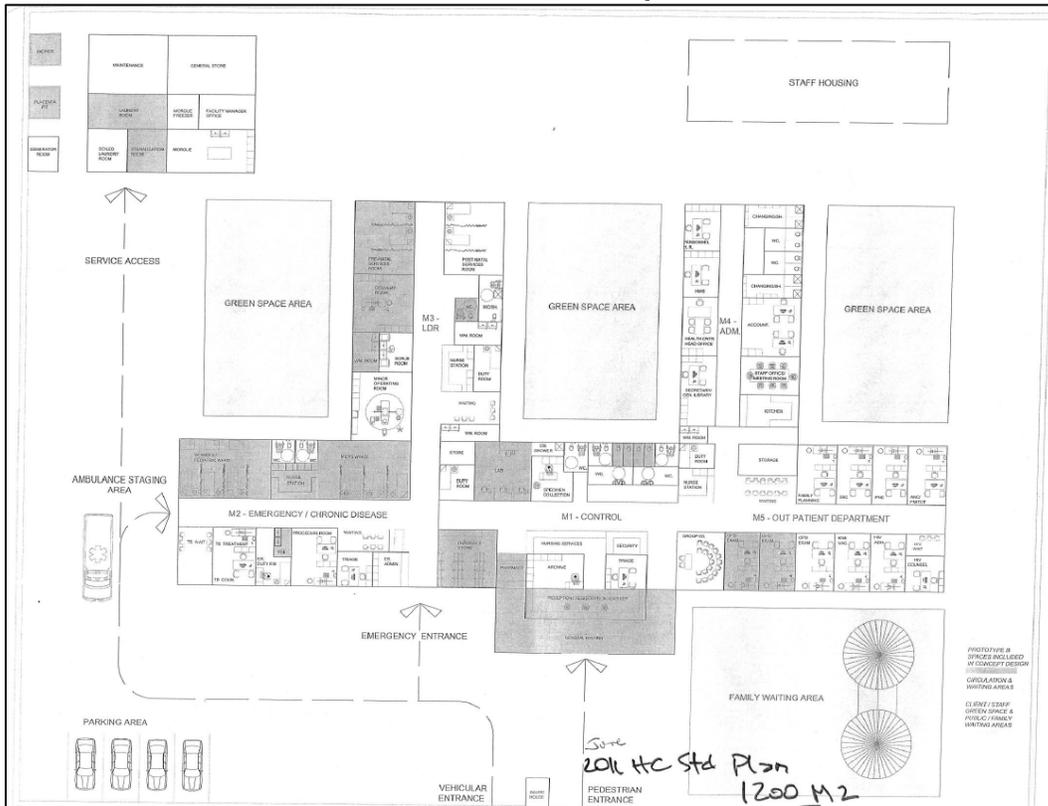
Source: Tetra Tech planning files from March to December 2011

Figure III-2. Revised Type B Health Center With Two Additional Structures, Increasing Size to 4,391 Square Feet



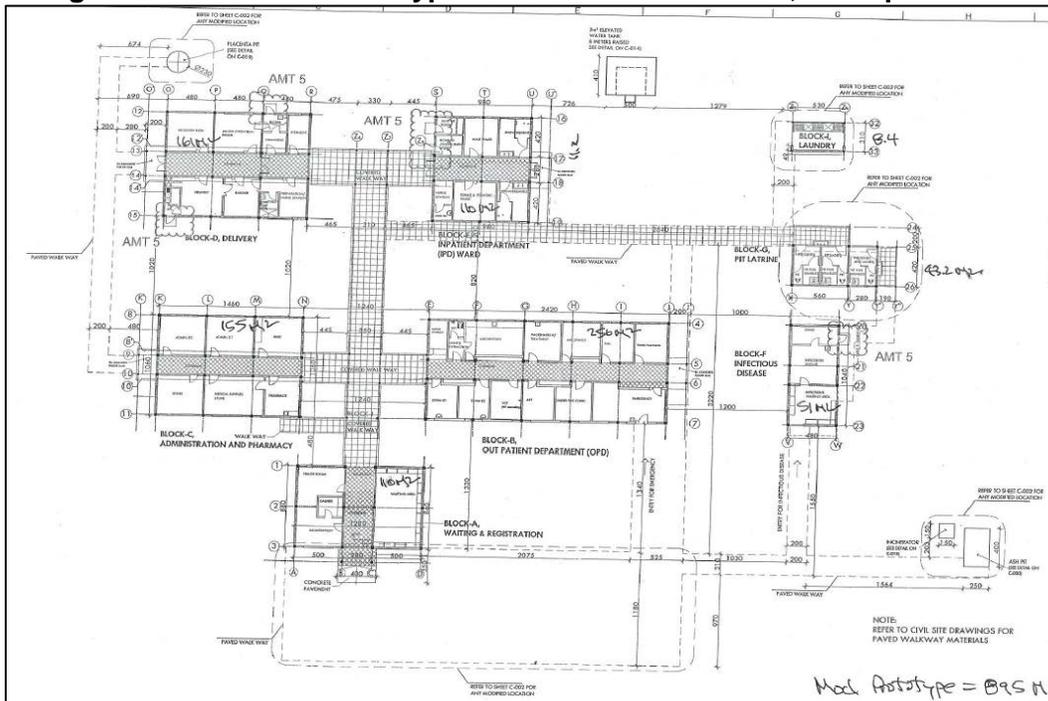
Source: Tetra Tech planning files from March to December 2011

Figure III-3. Original Prototype Design That More Than Tripled Size of Health Center to 12,917 Square Feet



Source: Tetra Tech planning files from March to December 2011

Figure III-4. Revised Prototype That Reduced Size to 9,634 Square Feet



Source: Tetra Tech planning files from March to December 2011

Comparison of Locations of Centers Funded by Ethiopia and USAID



The Ethiopian Government was constructing a government-standard health center in Aember, a small city in Amhara, in September 2013. (Image from National Geospatial-Intelligence Agency)



USAID completed a health center (in red) twice the size of the government standard in Jaradado, a rural area in SNNPR, in June 2013. (Image from National Geospatial-Intelligence Agency)

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>