# OFFICE OF INSPECTOR GENERAL

# AUDIT OF USAID/MADAGASCAR'S PROCUREMENT AND DISTRIBUTION OF LONG-LASTING INSECTICIDE-TREATED NETS UNDER THE PRESIDENT'S MALARIA INITIATIVE

AUDIT REPORT NO. 4-687-14-005-P
MAY 20, 2014

PRETORIA, SOUTH AFRICA

*Office of Inspector General*

May 20, 2014

**MEMORANDUM**

**TO:** USAID/Madagascar Mission Director, Susan Riley

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

**SUBJECT:** Audit of USAID/Madagascar's Procurement and Distribution of Long-Lasting Insecticide-Treated Nets Under the President's Malaria Initiative (Report No. 4-687-14-005-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 (except as noted below and without attachments) in Appendix II.

The report includes 12 recommendations to strengthen USAID's procurement and distribution of nets in Madagascar. We redacted Recommendation 2 and your response from this report and will separately transmit that recommendation along with our evaluation of your response. Based on subsequent correspondence from the mission, we removed Recommendations 7 and 8 from the draft report and renumbered Recommendations 9 through 14 accordingly. We acknowledge management decisions on seven recommendations (1, 3, 6, 9, 10, 11, and 12).

Four recommendations remain without a management decision (4, 5, 7, and 8). In accordance with ADS 595.3.1.2.a, a management decision cannot be acknowledged on Recommendation 5 until the agreement officer specifies the amount of questioned cost-sharing contributions (currently $75,838) allowed and/or disallowed. Recommendations 4, 7, and 8 require detailed information on planned corrective actions in accordance with ADS 595.3.1.2.c.(2). We consider that final action has been taken on Recommendation 10 and it is closed.

Please have the responsible official provide us with written notice within 30 days on actions planned or taken regarding Recommendations 4, 5, 7, and 8. Please also provide the Office of Audit Performance and Compliance Division with the necessary documentation to achieve final action on Recommendations 1, 3, 6, 9, 11, and 12.

Although we acknowledged management decisions on Recommendations 1 and 9, we disagreed with them for the reasons stated on pages 16 and 18. 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.

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

# CONTENTS

**Summary of Results** ........................................................................................................1

**Audit Findings**..................................................................................................................5

Net Distribution Did Not Follow Guidelines ..........................................................................5

Net Distribution Was Not Well Organized .............................................................................7

Some Cost-Sharing Contributions Did Not Meet Requirements............................................8

Program Did Not Comply With Environmental Requirements .............................................10

Branding and Marking Efforts Were Inadequate .................................................................12

**Other Matter** ...................................................................................................................13

Previous Audit and Review Recommendations Were Not Implemented .............................13

**Evaluation of Management Comments**..........................................................................16

**Appendix I—Scope and Methodology** ..........................................................................19

**Appendix II—Management Comments** .........................................................................21

**Abbreviations**

The following abbreviations appear in this report:

| | |
|---|---|
| ADS | Automated Directives System |
| AOR | agreement officer's representative |
| CDC | Centers for Disease Control and Prevention |
| CFR | Code of Federal Regulations |
| COR | contracting officer's representative |
| JSI | John Snow Inc. |
| FY | fiscal year |
| NCC | National Coordinating Committee |
| NMCP | National Malaria Control Program |
| OMB | Office of Management and Budget |
| PMI | President's Malaria Initiative |
| PSI | Population Services International |
| RIG | Regional Inspector General |
| UNICEF | United Nations Children's Fund |
| WHO | World Health Organization |

# SUMMARY OF RESULTS

Madagascar, one of the poorest countries in the world, faces significant public health problems like malaria, which threatens social and economic development. Consequently, the island nation off the east coast of Africa was selected to receive funding under the President's Malaria Initiative (PMI) in 2006, and full implementation began in fiscal year (FY) 2008.

Since then, several interventions have yielded significant gains. One of them involved distributing long-lasting nets treated with insecticide to people in heavily affected areas; USAID has procured more than 8.4 million nets for distribution since 2009. As a result of this assistance, the percentage of children who slept under a net the previous night increased from 58 percent in 2009 to 89 percent in 2011. Likewise, the number of pregnant women who slept under a net the previous night also increased from 58 percent in 2009 to 85 percent in 2011.[1]

The U.S. Government suspended all assistance to the Malagasy Government after the military assumed power during a coup d'état in 2009. As a result, USAID could not directly support the government's health systems. However, USAID has been allowed to support Madagascar's national strategic plan through key malaria initiatives that do not involve direct government support because USAID can provide the assistance directly to the Malagasy people.

Table 1 lists the main implementer of net procurement, John Snow Inc. (JSI), and of distribution, Population Services International (PSI), that were in the audit. In 2012 USAID procured 2.1 million nets for distribution in 19 districts and 2.7 million nets for 28 districts in 2013.

**Table 1. Audited Programs in Madagascar (Amounts Unaudited)**

| Implementer | Program Description | Spent in fiscal years 2012 and 2013 ($) | Task Order/ Agreement Dates |
|---|---|---|---|
| JSI | JSI's DELIVER project seeks to improve availability of high-quality malaria products by procuring commodities like nets for distribution. JSI also works to strengthen the local systems that manage PMI commodities once they arrive. | 14,585,631 | Task Order 3/2011–3/2014 |
| PSI | PSI's program seeks to improve the health of the Malagasy people, particularly women and children, through an increasingly sustainable social marketing program that delivers essential health products and services, particularly focused on rural and underserved areas. PSI is the primary distributor of nets procured through DELIVER. | 4,407,794 | Cooperative Agreement 1/2013–12/2017* |

* PSI has distributed USAID-funded nets since 2009. PSI distributed nets in 2012 under a different agreement that ended in December 2012.

[1] PMI 2013 Madagascar Country Profile.

The Regional Inspector General/Pretoria (RIG) conducted this audit to determine whether nets funded under PMI reached intended beneficiaries in Madagascar and were used as intended. The audit covered net procurement and distribution activities for fiscal years 2012 and 2013.


**One beneficiary's net is still in the bag (left) from the 2012 distribution in Toamasina. Another beneficiary who received a net from the same distribution is using hers (right). (Photo by RIG/Pretoria, December 2013)**

The audit determined that beneficiaries who received nets found them to be helpful and used them as intended. However, the national committee in charge of malaria policy inaccurately forecast the number of nets needed. Therefore USAID did not procure enough to meet Madagascar's universal coverage goal of one net for every two people in the household; instead the mission distributed one net for every three people.

Although the inaccurate forecasts were largely beyond USAID's control because census activities are funded by another donor, the audit found that the mission's PMI adviser did not attend any meetings of the national committee that is responsible for planning net forecasting and ordering—of which USAID is a member—in 2013. Furthermore, poor planning meant that some potential beneficiaries did not receive nets, even though more than 225,000 nets meant for the 2012 and 2013 campaigns were sitting in warehouses and incurring unnecessary storage costs (page 7).

The mission's PMI program has had staffing problems, thereby putting pressure on current staff to take on more responsibilities. The senior public health adviser position was eliminated in August 2013, and the activity manager for JSI's DELIVER project resigned a week before this audit and had not been replaced. Meanwhile, the resident Centers for Disease Control and Prevention (CDC) PMI adviser completed her assignment and departed in June 2013, but her replacement did not arrive until December.

The audit also found that:

- Some cost-sharing contributions did not meet USAID's requirements (page 8). As a result, the mission allowed PSI to claim unallowable contributions.

- The program did not comply with environmental requirements (page 10). Bed net bags were not collected and disposed of as required.

- Beneficiaries did not know about USAID's efforts (page 12). Therefore the American people did not get the credit they deserved.

In another matter unrelated to the scope of this audit, the audit team found that PSI had not acted on previous recommendations to improve warehouse storage conditions and to address salary levels that violated its own policies (page 13).

To strengthen USAID/Madagascar's PMI program and address the other matter, the audit recommends that the mission:

1. Implement a plan to increase its involvement and participation on the National Coordinating Committee (NCC), and coordinate efforts with other donors on the committee to improve the quality and timeliness of population census results (page 6).

2. [This recommendation has been redacted because it represents information that could identify an individual USAID employee. Personally identifiable information is subject to the Privacy Act and other laws. The disclosure of the identity of this individual employee would not advance the public's right to know and understand the operation of the program that is the subject of this audit].

3. Implement a plan to distribute unused nets from previous campaigns (page 8).

4. Implement a plan to improve monitoring and oversight of its net distribution activities, including visits to warehouses storing nets, to make sure distributors are working effectively and consistently (page 8).

5. Determine the allowability of $75,838 in questioned cost-share contributions made by PSI and disallow any amounts determined to be unallowable (page 10).

6. Ask PSI to remove similar amounts not sampled from its reported cost-share contributions, and verify that these amounts are reflected in PSI's financial forms, called Standard Form 425 reports (page 10).

7. Implement a plan to include periodic review of the composition of implementers' cost-share contributions as part of its normal financial oversight procedures (page 10).

8. Implement a plan, including surprise site visits, to verify that net bags from future PMI distribution campaigns are disposed of properly (page 12).

9. Rewrite its branding and marking policy to clarify branding expectations given current restrictions on working directly with the Malagasy Government, and disseminate the updated version to its implementers (page 12).

10. Instruct PSI to implement an action plan to correct contraceptive storage conditions within 90 days (page 14).

11. Quantify excessive salaries paid to PSI employees, determine the allowability of any excessive amounts, and recover from PSI any amount determined to be unallowable (page 15).

12. Give agreement officer’s representatives (AORs) and contracting officer’s representatives (CORs) written reminders about the importance of complying with Mission Order 203-004 when conducting site visits, and specify appropriate sanctions for repeated failure to do so (page 15).

Detailed findings appear in the following section, and the scope and methodology appear in Appendix I. Management comments are included in their entirety (without attachments and with the response to Recommendation 2 redacted) in Appendix II, and our evaluation of them begins on page 16.

# AUDIT FINDINGS

## Net Distribution Did Not Follow Guidelines

According to the World Health Organization (WHO), a household should have one bed net for every two members. In addition, net use is typically high when people have access to them.

Madagascar's National Malarial Control Program (NMCP) adopted the WHO standard, and donors are expected to follow it when distributing nets. Accordingly, USAID/Madagascar's 2013 Malaria Operational Plan states, "PMI is supporting the Ministry of Health goal of universal coverage . . . of one [net] per [two] persons in 93 of the 112 health districts where seasonal or perennial malaria transmission occurs." USAID's 2012 planning activities also demonstrated the intention to distribute one [net] per [two] persons. However, the audit found that the mission could not follow this standard during its 2012 and 2013 distribution campaigns.

To coordinate malaria assistance efforts in Madagascar, the NCC was formed in 2009. The committee is comprised of donors and implementers such as USAID, Global Fund, United Nations Children's Fund (UNICEF), PSI, JSI, WHO, and Peace Corps, and the chairman is a NMCP official. NCC's functions include forecasting commodity needs (including nets), ordering them, and coordinating their distribution. The committee usually meets monthly but convenes more frequently during forecasting and distribution cycles. In calculating the number of nets needed, NCC uses the WHO standard on net access. Once that number is determined, quantities are shared among donors (including USAID), and nets are ordered for the distribution campaigns.

Although USAID ordered the numbers NCC requested for the 2012 and 2013 campaigns, it was not enough to meet the one-net-per-two-people guideline. The program's AOR concluded in a post-distribution analysis that USAID needed approximately 3 million nets to meet national guidelines for the 19 districts it distributed to in 2012, yet only 2.1 million were on hand.

In 2013, 2.7 million nets were available for distribution in 28 districts in western Madagascar, and that was not enough for everyone who needed a net, according to national guidelines. Therefore, USAID changed its distribution criteria to one net for every three people in a household to satisfy demand in its assigned districts. The AOR (who is also the mission's PMI adviser and activity manager for JSI's DELIVER project) could not provide the auditors with an estimated quantity of nets needed to meet the WHO standard in 2013.

According to NMCP officials, the shortage happened because NCC used outdated census data to determine how many nets were needed. This became apparent during planning for the 2009 campaign, when the only available data were from 1993. To compensate, NCC increased population figures from the 1993 census by 26 percent for the 2009 campaign and 30 percent for the 2012 campaign. But they were inadequate.

To help provide accurate data, the Global Fund sponsored censuses that PSI conducted in regions where nets were distributed. Although the censuses were intended to provide NCC with reliable data for forecasting demand and planning distributions, they sometimes took place after net distribution. For example, in 2012 distribution took place from November 26 to December 2, while the census was conducted from November 19 to December 14. According to NMCP and PSI's subrecipient officials, the census did not happen on time because the Global Fund was late in delivering funds.

The officials spoke of other problems with these censuses. A subrecipient official said although a census was conducted in its distribution area just before the 2013 net distribution, it was inaccurate and therefore unreliable. The community in question felt that the PSI census undercounted the population when compared with a census they conducted. PSI subsequently increased its count by more than 100 percent, demonstrating a lack of confidence in its own census.

Although USAID does not pay for the censuses, it is a member of NCC, and the mission's malaria activities are affected by the committee's decisions. Yet the mission's PMI adviser—who is responsible for providing technical leadership, coordinating the mission's PMI program, and monitoring and working with other donors—did not attend NCC meetings in 2013. He said that because the former CDC PMI adviser regularly attended the meetings, he worked closely with her to address issues relevant to USAID. (However, she left Madagascar in June 2013.) He also said JSI and PSI are on the committee as well, and that was sufficient representation for USAID. However, a PSI official said that even though PSI attended NCC meetings, it was not an official member and therefore did not have a vote in deciding the quantity to be ordered.

Because of the troubles in accurately forecasting net demand, residents in 31 of 50 households interviewed during this audit did not receive enough nets. Some said it was impractical for three household members to share a net, so they had to buy additional ones. Some continued to use old nets, while other households had to choose who slept under a net, leaving some household members vulnerable to malaria.

Although the cause of this problem was largely beyond the mission's direct control, USAID's ability to influence malaria policy in Madagascar was diminished by the PMI adviser's failure to attend NCC meetings. Because he did not attend, USAID was not represented during discussions about where its implementers would be responsible for distributing nets. We consider the PMI adviser's repeated lack of attendance to be an egregious disregard of his duties. Therefore, to improve the mission's net distribution program, we make the following recommendations.

> ***Recommendation 1.*** *We recommend that USAID/Madagascar implement a plan to increase its involvement and participation on the National Coordinating Committee and coordinate efforts with other donors on the committee to improve the quality and timeliness of population census results.*
>
> ***Recommendation 2.*** *[Redactions in this section of the report represent information that could identify an individual USAID employee. Personally identifiable information is subject to protection under the Privacy Act and other laws. The disclosure of the identity of this individual employee would not advance the public's right to know and understand the operation of the program that is the subject of this audit]*.

## Net Distribution Was Not Well Organized

Once nets arrived in Madagascar, PSI's subrecipients distributed them to beneficiaries during planned distribution campaigns. According to their agreements with PSI, subrecipients were required to distribute all nets during the campaigns, leaving none left over. To accomplish this, PSI required its subrecipients to canvass their assigned areas beforehand to educate beneficiaries about the benefits of nets, inform them when and where distributions would occur, and register them to receive nets. Following distribution, subrecipients were supposed to verify that beneficiaries were using the nets as intended, answer any questions that they may have, and give nets to households that were missed during the campaigns. Subrecipients used community health workers to carry out these tasks and complete any required follow-up.

Despite the shortage of nets discussed above and the requirement to distribute all nets during the campaigns, the audit found more than 200,000 nets (worth more than $300,000) that PSI subrecipients never picked up from JSI's warehouse where they were stored before being transported to the various districts for distribution. Auditors found another 25,000 (worth $37,500) from the 2012 and 2013 campaigns in PSI's warehouses. PSI officials said they did not know what the plans were for these nets.

**Bales of nets (left) were supposed to be distributed in 2013, but they were never picked up from JSI's warehouse. The bales on the right were returned to PSI's warehouse following 2012 and 2013 distributions. Each bale contains 50 nets. (Photo by RIG/Pretoria, December 2013)**

According to JSI officials, the 200,000 nets were never picked up because PSI had determined them to be extras based on its pre-distribution planning. The PMI adviser (who was also the activity manager during the audit) had never visited the JSI warehouse. As a result, the warehouse lease, which was scheduled to end in October 2013, had to be extended to December 31, 2013, for more than $22,000 a month.

Additionally, some subrecipients and community health workers did not distribute nets as planned. Although community health workers were supposed to visit and register households prior to distribution, this did not always happen. For example, 16 out of 50 households interviewed by auditors said they were not registered by a community health worker, resulting in some beneficiaries learning of the campaigns through friends and neighbors.

One community health worker said she did not give nets to households that had not preregistered, even though PSI provided additional nets to cover them because she was afraid of running out of nets. Three households that had preregistered through this community health worker were not told when distribution would occur, increasing the risk that they would not be present to receive the nets intended for them. These households had young children and an inadequate number of nets; as a result, some household members did not sleep under nets, exposing them to greater risk of contracting malaria.

These problems occurred because PSI and USAID did not monitor distribution practices adequately to identify and correct deficiencies. Although PSI required its subrecipients to identify and train community health workers to distribute nets, it did not follow up to confirm that they were doing their jobs. Furthermore, required post-campaign visits by community health workers were not always conducted, leading to missed opportunities to give nets to those who missed the distribution or address any problems they may have with the nets. While the USAID AOR visited some distribution sites, he did not focus on community health workers' actual distribution practices.

Because of these problems, 10 of 50 households we surveyed did not receive the correct number of nets even after the distribution criteria was revised to one net per three people. Several received too few, forcing some household members to sleep without a net. Others received too many, exacerbating shortages elsewhere; one household of eight people received eight nets—four more than the national standard and five more than the one USAID applied—because the community health worker gave them extras on the last day of campaign.

As a result, nets that people needed remained in storage, and USAID had to extend the warehouse lease for 2 months at more than $22,000 per month. In addition, WHO guidelines state that insecticide-treated nets have a limited shelf life in storage, so additional storage time may reduce the nets' utility for beneficiaries.

At the end of audit fieldwork, USAID/Madagascar had not developed a plan to distribute the leftover nets. To address these problems, we make the following recommendations.

> ***Recommendation 3.*** *We recommend that USAID/Madagascar implement a plan to distribute unused nets from prior distribution campaigns.*

> ***Recommendation 4.*** *We recommend that USAID/Madagascar implement a plan to improve monitoring and oversight of net distribution activities, including visits to warehouses storing nets, to promote consistent, effective practices among all distributors.*

## Some Cost-Sharing Contributions Did Not Meet Requirements

According to USAID's Automated Directives System (ADS) 303.3.10, "Cost share refers to the resources a recipient contributes to the total cost of an award." Title 22 of the Code of Federal Regulations (CFR), Part 226, Section 2 defines cost sharing or matching as that portion of project or program costs not borne by the federal government. Section 23 requires that cost-share contributions be verifiable from the recipient's records, and that they be necessary and reasonable for proper, efficient accomplishment of project objectives. If a recipient does not meet its cost-sharing requirement, USAID can apply the shortfall to reduce the amount of USAID funding for the next funding period or ask the recipient to refund the difference to USAID when the award ends.

Under its agreement, PSI was to provide $9.59 million, or 26 percent of total project costs, as cost share. Table 2 shows the contributions specified in PSI's cost-share budget, which USAID/Madagascar approved during the award negotiation process.

**Table 2. Approved Cost-Share Contributions per Award Budget (Unaudited)**

| Funder | Items | Description | Amount ($) |
|---|---|---|---:|
| Global Fund | nets* | Net contribution for routine and mass distribution by PSI. | 5,889,429 |
| Global Fund | malaria drugs | Malaria drug contribution to project activities from Global Fund's ongoing malaria program in Madagascar. | 178,428 |
| Program Income –USAID | commodities | Program income derived from USAID project to be used to purchase additional commodities. | 921,129 |
| Program Income –USAID | packaging | Program income derived from USAID project to be used to pack commodities. | 1,868,810 |
| Women Health Project | family planning activities | Funding would be used to support project in Madagascar. | 729,950 |
| **Total** | | | **9,587,746** |

* These nets had not yet been contributed to USAID and were not part of the 2013 distribution campaign.

From January 1, 2013, to September 30, 2013, PSI claimed cost-sharing contributions of $1,438,793. We randomly selected a sample of transactions totaling $93,115 from PSI's records to verify compliance with 22 CFR 226.23 and found that $75,838 (81 percent) were either unsupported or not related to program objectives.

- Although PSI claimed $32,725 for warehousing costs as cost share, part of the warehouse was used to store items unrelated to USAID's PMI activities, such as scrap materials, new equipment (shown in pictures below), and nets and other commodities that belonged to other donors.

**PSI stores its own scrap materials (left) and furniture (right) in a warehouse in Antananarivo. However, it claimed the rent as cost share. (Photo by RIG/Pretoria, December 2013)**

- Local PSI officials did not provide supporting documentation for six transactions totaling $2,886. They said the documents were prepared and stored at their headquarters in Washington, D.C. These contributions included four transactions amounting to $1,577 whose descriptions in PSI's accounting system were names of schools in South Africa. In addition to not providing support for these expenditures, PSI could not explain what the expenses were for, or how they contributed to the accomplishment of USAID program objectives in Madagascar. In another case, we selected $1,309 paid to one of PSI's key officials for per diem. PSI officials explained details of the trip but did not provide any support.

- PSI included $40,227 on salaries for Global Fund projects as cost share. PSI implemented three projects for the Global Fund, which included malaria treatment, distributing nets in districts different from those allocated to USAID, and HIV/AIDS counseling and testing.

Although the AOR's responsibility to monitor cost share is in his designation letter, he said he was not aware of this. He added that the mission's financial analyst supporting the health team provided cost-share oversight for PSI's agreement because he did not have the financial skills needed to perform this task. In fact, the mission's FY 2013 risk assessment required by the Federal Managers' Financial Integrity Act of 1982 stated that its AORs do not have the necessary skills and training to carry out their duties.

The financial analyst, however, said he only tracked the cost-share percentage PSI met—not where the funds came from or their compliance with CFR.

Cost share is an integral part of an award's total resources that are devoted to achieving planned objectives. Although PSI is audited annually pursuant to Office of Management and Budget Circular (OMB) A-133, these audits rarely look at the detail of cost-sharing contributions for individual awards. Thus, some periodic review is warranted to confirm that the contributions comply with the award and federal regulations. To promote more effective use of cost-sharing contributions, this audit makes the following recommendations.

> ***Recommendation 5.*** *We recommend that USAID/Madagascar determine the allowability of $75,838 in questioned cost-share contributions made by Population Services International and disallow any amounts determined to be unallowable.*

> ***Recommendation 6.*** *We recommend that USAID/Madagascar instruct Population Services International to remove similar amounts not sampled from its reported cost-share contributions, and verify that these amounts are reflected properly in Population Services International's Standard Form 425 reports.*

> ***Recommendation 7.*** *We recommend that USAID/Madagascar implement a plan to include periodic review of the composition of implementers' cost-share contributions as part of its normal financial oversight procedures.*

## Program Did Not Comply With Environmental Requirements

Section 117 of the Foreign Assistance Act of 1961, as amended, requires USAID to consider the impact of its programs on the environment. This is supplemented by 22 CFR 216 and

ADS 204, “Environmental Procedures,” which require that the potential environmental effects of USAID-financed activities be identified before deciding to proceed and that appropriate safeguards are adopted once activities start.

For the Madagascar campaigns, PSI was required to verify that the plastic bags containing the nets were disposed of appropriately, preferably through recycling or incineration. If this was not possible, the preferred alternative was to bury them.

After the 2012 campaign, PSI reported that communities were instructed to collect all the bags from beneficiaries after distribution and bury them under the supervision of subrecipient officials. It further reported performing physical inspections after distribution to verify compliance with environmental requirements. For the 2013 campaign, PSI reported that all bags were cut open to preclude future use, collected at the distribution sites, and buried by community health workers. PSI added that beneficiaries who insisted on taking their nets home in the bags were subsequently contacted by a community health worker to collect them for disposal.

These actions did not occur in the four districts auditors visited. The bags were never collected, and beneficiaries were asked to dispose of them on their own. Twenty-five of the 50 beneficiaries reported not receiving any guidance from PSI or its subrecipients on what to do with the bags. Only 13 out of 50 said they buried their used bags, while 7 burned them, 12 threw them in the trash, and 9 chose to keep the bags in their homes. Of the remaining nine, one reported sending the bag back to the community health worker for disposal, and the rest either did not remember what they did with the bags or did not receive any nets.


**These net bags from 2012 and 2013 distributions were never collected for disposal and remained with beneficiaries (Photo by RIG/Pretoria, December 2013)**

While subrecipients told the communities to bury the bags, they did not follow up to make sure they did. Nor did PSI monitor its subrecipients to make sure they were verifying compliance with environmental requirements.

Although the AOR gave auditors photographs of a pile of net bags ready to be buried at a distribution site in October 2013, the site visit was planned in advance with PSI and was attended by the mission director.

USAID plans to spend $1.6 million over the next 2 years to promote natural resources management in Madagascar. Noncompliance with environmental requirements in other USAID programs can diminish the effectiveness of that assistance. Therefore, we make the following recommendation.

*__Recommendation 8.__ We recommend that USAID/Madagascar implement a plan, including surprise site visits, to verify that net bags from future President's Malaria Initiative distribution campaigns are disposed of properly.*

## Branding and Marking Efforts Were Inadequate

Section 641 of USAID's framework legislation, the Foreign Assistance Act of 1961 (codified as amended in 22 U.S.C. 2401), specifies that programs under the act be identified appropriately overseas as "American aid" because doing so helps the Agency advance U.S. foreign policy interests. In addition, ADS 320 requires that all foreign assistance be branded appropriately.

Despite these requirements, people who got USAID-funded nets in Madagascar did not know that they were paid for by the United States. Although USAID's implementers had branding and marking plans as required, they did not comply with them. The warehouse JSI used to store nets was marked only with the subcontractor's logo because neither USAID nor JSI briefed the warehouse manager on branding requirements. Events associated with mass distribution campaigns were not branded with USAID logos either. For example, the net bags and vests community health workers wore during the campaigns did not bear the USAID logo.

In 2012 the mission instructed implementers not to co-brand—have USAID logos alongside that of the Malagasy Government—because of sanctions imposed by the U.S. Government. However, this communication was not worded clearly, and implementers interpreted it to mean no branding at all for distribution campaigns. PSI officials said the instructions, coupled with other restrictions on working directly with the government, confused them on how to brand and promote USAID activities in Madagascar.

Similar confusion existed during the 2013 campaign. The AOR did not identify noncompliance with branding requirements during site visits because he did not follow Mission Order 203-004, which included a checklist with areas on branding to be addressed during site visits.

Because of inadequate branding, beneficiaries credited the Malagasy Government or other donors like UNICEF for the nets that they received. Only 1 of 25 households visited in Toamasina was aware of the U.S. Government's involvement (this household also was used as a storage and distribution site during the campaign). Moreover, the president of a village and the community health worker who coordinated net distribution at a site in Toamasina did not know who sponsored the program. Similarly, in Mahajanga none of the 25 beneficiaries and community health workers interviewed was aware of USAID's sponsorship of the nets they received just 2 months before.

During the audit, mission officials identified the need to update and clarify the mission's policy on branding to comply with USAID and congressional requirements. Noncompliance with these requirements denies the U.S. Government and the American people the maximum public diplomacy benefits from their efforts to prevent and treat malaria in Madagascar. To address this issue, we make the following recommendation.

*__Recommendation 9.__ We recommend that USAID/Madagascar rewrite its branding and marking policy to clarify branding expectations given current restrictions on working directly with the Malagasy Government, and give the updated policy to its implementers.*

# OTHER MATTER

## Previous Audit and Review Recommendations Were Not Implemented

During the audit, other matters came to our attention that could have a negative effect on USAID programs in Madagascar.

ADS 596.3.1, "Establishing Internal Controls," states that all Agency employees play a key role in developing and implementing internal controls that safeguard assets against waste, loss, or theft. The Government Accountability Office's *Standards for Internal Control in the Federal Government* states that managers should "(1) promptly evaluate findings from audits and other reviews, including those showing deficiencies and recommendations reported by auditors and others, (2) determine proper actions in response to findings and recommendations from audits and reviews, and (3) complete, within established time frames, all actions that correct or otherwise resolve the matters brought to management's attention."

Additionally, OMB Circular A-122 states that costs are allowable when they are reasonable and adequately documented. A reasonable cost means that "in its nature or amount, [the cost] does not exceed that which would be incurred by a prudent person under the circumstances prevailing at the time the decision was made to incur the costs." The circular states, "In determining the reasonableness of a given cost, consideration shall be given to generally accepted sound business practices . . . federal and state laws and regulations . . . and significant deviations from the established practices of the organization which may unjustifiably increase the award costs."

USAID/Madagascar gave the cooperative agreement to PSI with a special award condition that required a financial review of PSI's internal controls. According to the condition, PSI had 6 months after the start of the agreement—June 2013—to resolve any problems found in the review.

The mission's Office of Financial Management conducted the financial review and issued its report in January 2013. The review found weaknesses with PSI's warehouse management, including lack of electricity at some of its main warehouses and excessive salaries for some employees. PSI's ability to proceed with the program was subject to it demonstrating that final recommendations from the financial review had been implemented.

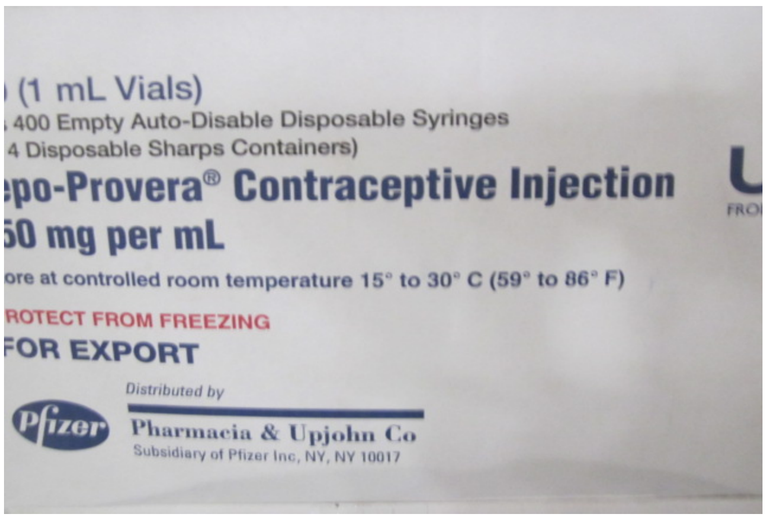
In addition, Global Fund OIG conducted an audit of programs implemented by PSI.[2] The report raised significant concerns, some of which were similar to those in USAID's review. For example, the report said PSI's regional warehouse in Toamasina did not have proper air conditioning and was extremely hot because of the corrugated iron roof. In another instance, the report found that while employee benefits may be part of PSI's remuneration package, the extent of the benefits paid to employees seemed excessive, especially when compared with the purpose for which the funds were provided, meaning salaries and benefits were a significant percentage of the total budget. Although USAID is not required to address Global Fund audit

[2] Audit report GF-OIG-020, October 31, 2011.

findings, during the agreement negotiation process USAID asked PSI to be sure that the problems identified in the audit would not be present in USAID's program.

Despite this request, the audit found that PSI had not resolved these problems.

**Warehouse Conditions Had Not Improved**. Auditors visited PSI's main warehouse in Antananarivo, which housed nets remaining after the 2012 campaign, and found USAID-funded contraceptives were not stored at a cool enough temperature. According to the manufacturer, the contraceptives should be stored in places kept between 59 and 86 degrees Fahrenheit, as shown in the photos below. However, the temperature in the warehouse on 5 of the 9 days just before the auditors' visit exceeded 86 degrees; on December 2 the temperature reached 90.7 degrees, and on December 13 it was 89.8 degrees. PSI officials blamed the problems on intermittent electricity supply and the landlord's failure to install ventilators that PSI requested.




**Despite warnings like this, PSI stored contraceptives in warehouses where temperatures went above 86 degrees Fahrenheit. (Photo by RIG/Pretoria, December 2013)**

Auditors also found similar problems in PSI's regional warehouse in Toamasina. USAID-funded contraceptives were stored in a place without temperature control, and the warehouse's corrugated iron roof increased storage temperatures. They exceeded 86 degrees for 3 days in December before our visit. Although PSI's regional staff had developed a plan to address this problem, they never received funding from their head office in Antananarivo authorizing them to proceed.

Because of these conditions, USAID-funded contraceptives could become useless and result in financial loss. Consequently, we make the following recommendation.

> ***Recommendation 10.*** *We recommend that USAID/Madagascar instruct Population Services International to implement an action plan to correct contraceptive storage conditions within 90 days.*

**Excessive Salaries.** PSI internal policy states that "staff remuneration should be based on usual and customary salary practices for the local country and region, not to exceed published USAID Foreign Service National salary guidelines for USAID-funded projects." However, the financial review found that PSI's maximum allowed salary exceeded USAID's by 174 percent.

This violates OMB Circular A-122, Attachment B, Section 8.b, which states that the costs of compensation are "allowable to the extent that total compensation to individual employees is reasonable for the services rendered and conforms to the established policy of the organization consistently applied to both Federal and non-Federal activities." PSI responded to the finding by stating that it made a few exceptional cases to attract and retain highly qualified key technical staff.

In July 2013, 6 months after the initial financial review, USAID/Madagascar conducted a follow-up review. The draft report said some of the findings and recommendations reported previously had not been implemented and resolved. Forty-nine percent of PSI's employees were paid more than USAID's local staff by category. PSI officials told auditors that PSI, instead of adjusting the salaries, did a comprehensive salary survey of other international nongovernmental organizations to verify the competitiveness and reasonableness of salaries paid to its staff. However, the results of the survey were not available during our audit, and PSI continued to pay its staff more than USAID rates.

These recommendations remained unaddressed because USAID/Madagascar did not follow up on their implementation. Although the AOR met four times with PSI and conducted two site visits in FY 2013, he did not address these issues at any of those events.

Additionally, USAID asked PSI to develop a strategy to make sure that issues identified in the Global Fund audit would not be present in USAID's program. But it did not follow up with PSI nor verify that the issues were not repeated in USAID's program. The AOR said he did not follow up on the Global Fund recommendations because he had not read the audit report. Though he was aware of some of the financial review's findings and recommendations, he did not follow up on those either. He said USAID/Madagascar's PMI team was understaffed and that from August to December 2013 he was the mission's only full-time PMI official. He also said he inherited additional work created by other vacancies.

Nonetheless, the AOR had opportunities to follow up on the financial review recommendations in the four meetings and two site visits to PSI after the financial review came out. The auditors concluded that the AOR did not follow Mission Order 203-004 on monitoring site visits, effective May 27, 2011, that contained a checklist and reminded AORs to follow up on outstanding audit findings.

Because PSI did not implement previous recommendations, USAID funds could be misused for unallowable costs, reducing the amount of funds available to meet program objectives. Therefore we make the following recommendations.

***Recommendation 11.*** *We recommend that USAID/Madagascar quantify excessive salaries paid to Population Services International employees, determine the allowability of any excessive amounts, and recover from Population Services International any amount determined to be unallowable.*

***Recommendation 12.*** *We recommend that USAID/Madagascar remind its agreement officer's representatives and contracting officer's representatives in writing of the importance of complying with Mission Order 203-004 when conducting site visits, and specify appropriate sanctions for repeated failure to do so.*

# EVALUATION OF MANAGEMENT COMMENTS

In its comments on the draft report, the mission agreed with all publicly disclosed recommendations. Because of correspondence received from the mission after its response to the draft report, we decided to delete Recommendations 7 and 8 in the draft report and renumber Recommendations 9 through 14 accordingly.

Based on management's comments and subsequent correspondence, we acknowledged management decisions on seven recommendations (1, 3, 6, 9, 10, 11, and 12). Four recommendations remain without a management decision because they did not meet various requirements of ADS 595.3.1.2 (4, 5, 7, and 8). Of the seven recommendations with an acknowledged management decision, we disagreed with two (1 and 9) and consider that final action was taken on one (10). A detailed evaluation of management comments follows.

**Recommendation 1.** The mission agreed with the recommendation to implement a plan increasing its involvement in NCC and coordinating efforts with other donors to improve the quality and timeliness of population censuses. In its comments, the mission provided a detailed breakdown of PMI duties and assignments. In subsequent correspondence, it gave a target date of August 1, 2014, for final action, including having a new infectious diseases specialist on board.

Although we acknowledge management's decision, we disagree with it. The mission's response addresses donor coordination in general terms only and does not address census results at all. For example, the responsibilities of the activity manager are defined as maintaining "contacts with the GOM [Government of Madagascar], non-governmental organizations, and other donors to gain information needed for more effective project management," while the technical focal point "coordinates with GOM, partners and other donors on all matters pertaining to relevant technical area." For OIG to drop its disagreement with this management decision, the mission should provide more information on how it intends to work with other donors and NCC counterparts to improve the quality and timeliness of population census results.

**Recommendation 2.** *[Redactions in this section of the report represent information that could identify an individual USAID employee. Personally identifiable information is subject to protection under the Privacy Act and other laws. The disclosure of the identity of this individual employee would not advance the public's right to know and understand the operation of the program that is the subject of this audit]***.**

**Recommendation 3.** The mission agreed with the recommendation to implement a plan to distribute unused nets from prior distribution campaigns. In its comments, the mission provided a detailed distribution plan; in subsequent correspondence the mission said the plan was completed in January 2014. We acknowledge management's decision on this recommendation. A determination of final action will be made by the Office of Audit Performance and Compliance Division upon the submission of evidence supporting the implementation of the plan provided.

**Recommendation 4.** The mission agreed with the recommendation to implement a plan to improve monitoring and oversight of net distribution activities and added that a plan specific to the warehouses will be written by May 30, 2014. However, pursuant to ADS 595.3.1.2.c, management decisions on procedural recommendations must contain three elements: an indication of agreement or disagreement with the recommendation; detailed information about the planned corrective actions; and a target date for completing them. Although management's comments indicate agreement and a target date for when the plan will be written, they do not contain detailed information about planned actions or a target date for when they will be implemented. Consequently, this recommendation remains without a management decision.

**Recommendation 5.** The mission agreed with the recommendation to determine the allowability of $75,838 in questioned cost-sharing contributions and said it will ask the agreement officer to make a determination by June 15, 2014. However, pursuant to ADS 595.3.1.2.a, a management decision cannot be reached on this recommendation until the agreement officer specifies the amount of questioned costs allowed and/or disallowed.

**Recommendation 6.** The mission agreed with the recommendation that it instruct PSI to remove items similar to those shown on pages 9 and 10 from its cost-share contributions and verify that these amounts are reflected properly in PSI's SF-425 reports. In its comments and subsequent correspondence, the mission said it will ask PSI to remove all unallowable amounts and will verify that PSI has done so by August 30, 2014. We acknowledge management's decision.

**Recommendation 7 (Recommendation 9 in draft)**. The mission agreed with the recommendation to implement a plan to review the composition of implementers' cost-sharing contributions periodically as part of its normal financial oversight procedures. However, the mission's comments only restated the recommendation and did not provide detailed information about planned corrective actions as required by ADS 595.3.1.2.c.(2). Consequently, this recommendation remains without a management decision.

**Recommendation 8 (Recommendation 10 in draft).** The mission agreed with the recommendation to implement a plan, including surprise site visits, to verify that net bags from future PMI distribution campaigns are disposed of properly. In subsequent correspondence, the mission said it would draft such a plan by August 30, 2014. However, the mission's comments only restated the recommendation and did not provide detailed information regarding planned corrective actions as required by ADS 595.3.1.2.c.(2). Consequently, this recommendation remains without a management decision.

**Recommendation 9 (Recommendation 11 in draft).** The mission agreed with the recommendation to rewrite its branding and marking policy to clarify branding expectations given current restrictions on working directly with the Malagasy Government, and disseminate the updated version to its implementers. In its response, the mission gave the text of an e-mail about branding policy sent in October 2012 and said it would remind all partners of this policy again. In subsequent correspondence, the mission set a target date of September 30, 2014.

Although we acknowledge management's decision, we disagree with it. The recommendation called for the mission to "rewrite" its branding policy, but the proposed action merely entailed resending the October 2012 e-mail. As stated in the draft report and in the first paragraph on page 13 of this report, previous communications with implementers were not effective in specifying branding requirements. Although the mission stated in subsequent correspondence that it would rewrite its branding policy, it only restated the recommendation and provided no details as to what the revised policy would contain. For OIG to drop its disagreement with this management decision, the mission, in redrafting its branding policy, should clarify implementers' questions regarding branding. This clarification could include, for instance, a "Frequently Asked Questions" branding fact sheet that could be disseminated to implementers in a variety of ways.

**Recommendation 10 (Recommendation 12 in draft).** The mission agreed with the recommendation to instruct PSI to implement an action plan to correct commodity storage conditions within 90 days. On April 16, 2014, the AOR instructed PSI to submit a comprehensive action plan within 10 days, with corrective action to be completed 30 days after submission. The AOR asked PSI to describe how it will verify that corrective actions have been completed and how it will monitor future storage conditions for all USAID-funded commodities. Based on management comments and the supporting documentation, we acknowledge that a management decision has been reached and final action taken on this recommendation.

**Recommendation 11 (Recommendation 13 in draft).** The mission agreed with the recommendation to quantify excessive salaries paid to PSI employees, determine the allowability of any excessive amounts, and recover from PSI any amount determined to be unallowable. In subsequent correspondence, the mission said it would ask the agreement officer to quantify excessive salaries by August 30, 2014. Since the recommendation did not question a specific amount, it is a procedural recommendation and not a questioned cost recommendation for purposes of ADS 595.3.1.2. Consequently, we acknowledge management's decision.

**Recommendation 12 (Recommendation 14 in draft).** The mission agreed with the recommendation and said it would send a reminder to all employees about the importance of complying with mission orders, including appropriate sanctions. In subsequent correspondence, the mission established a target date of June 30, 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 whether USAID/Madagascar's nets funded under PMI are reaching intended beneficiaries in Madagascar and were used as intended. The mission supported two projects that procured and distributed nets through its fiscal years 2011 and 2012 PMI funding. The audit selected both projects—the first implemented by JSI for net procurement and the second implemented by PSI for net distribution. The audit covered 2012 and 2013 activities, which were implemented with PMI funding received in fiscal years 2011 and 2012.

The total estimated cost of the awards was $536.77 million—$499.95 million for JSI's DELIVER project[3] and $36.82 million for PSI's Integrated Social Marketing project—and a cost-share requirement of $9.59 million for PSI. As of September 30, 2013, USAID/Madagascar had obligated $22.32 million for program expenses and spent $18.99 million, while PSI had contributed approximately $1.44 million toward its cost-share requirement. During 2012 and 2013, USAID procured 2.1 million nets in 19 districts and 2.7 million nets in 28 districts, respectively, for distribution. Because this was a performance audit, which focused on program implementation rather than financial transactions, it did not include a financial review of expenditures, except amounts claimed by PSI as cost-share contributions to the program.

In planning and performing the audit, we assessed significant controls the mission used to manage the program and confirm that its implementers were providing adequate oversight of program activities. We reviewed USAID/Madagascar's FY 2013 Malaria Operational Plan, the contract with JSI and cooperative agreement with PSI, mission orders, and site visit reports. We also reviewed USAID/Madagascar's Federal Managers' Financial Integrity Act of 1982 certification for FY 2013 and previous audit and financial review reports to identify internal controls and other problems that could be significant to this audit.

To establish criteria for the audit, we reviewed the WHO guidelines on universal net coverage; USAID/Madagascar's FY 2013 Malaria Operational Plan; ADS Chapters 204, 303, and 320; and 22 CFR 216 and 226.

We performed audit fieldwork in Madagascar from December 3 through December 19, 2013. We conducted fieldwork at USAID/Madagascar in Antananarivo and at implementers' offices and selected warehouses. We also conducted site visits in the regions of Mahajanga and Toamasina.

---

[3] JSI's DELIVER project provides commodities to fight malaria to countries worldwide and strengthens supply systems and capacity to manage the commodities effectively.

## Methodology

To answer the audit objective, we first evaluated the mission's management and oversight of the programs selected for audit and their effectiveness by reviewing award documents, progress reports, and performance monitoring plans. Next, we reviewed site visit reports, the mission's FY 2013 Federal Managers' Financial Integrity Act of 1982 certification, a Global Fund OIG audit of PSI issued in October 2011, and USAID/Madagascar's financial review report, issued in January 2013. We corroborated the information with interviews and site visits.

At USAID/Madagascar in Antananarivo, we interviewed mission officials in the health, program, and financial management offices, plus the agreement officer for the PSI award and the mission environmental officer. We also interviewed a USAID PMI official based in Washington, DC, on behalf of the COR for the JSI project. We conducted additional interviews with officials from NMCP and implementers' staff in Antananarivo.

We selected site visit locations judgmentally to visit accessible urban and rural districts and to include sites of both the 2012 and 2013 mass distribution campaigns. We visited Toamasina, where the campaign took place in 2012, and Mahajanga, where it occurred in 2013. The two regions represented four districts: Toamasina I and II, and Mahajanga I and II. During these visits, we interviewed regional staff from implementers, three selected subrecipients, and community health workers. We specifically asked about the adequacy of nets received, distribution criteria, process to mobilize communities, and disposal of net bags.

Site visits included three warehouses (JSI's in Antananarivo, and PSI's in Antananarivo and Toamasina). At the warehouses, we assessed storage conditions and asked about the number of nets in storage and any plans for their use. At the community level, we assessed compliance with environmental requirements and branding and marking plans. We also spoke with 50 beneficiaries to get their views of program effects and their awareness of USAID, determine the number of nets they received, and verify net usage in their homes.

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. Because of the nature of the audit objective, we did not establish a materiality level for this audit.

# MANAGEMENT COMMENTS

April 30, 2014

## MEMORANDUM

TO: Regional Inspector General/Pretoria, Robert Mason
FORM: USAID/Madagascar Mission Director, Susan Riley /s/
SUBJECT: Audit of USAID/Madagascar's Procurement and Distribution of Long-Lasting Insecticide-Treated Nets Under the President's Malaria Initiative (Report No. 4-687-14-XXX-P)

---

On April 1, 2014, USAID/Madagascar received the draft report on the above-referenced audit. The draft audit report contains fourteen recommendations. The purpose of this memorandum is to provide management responses and request a management decision on each of the fourteen recommendations. We have clearly stated our positions on each recommendation with detailed explanation provided as needed.

**Recommendation 1. Implement a plan to increase its involvement and participation on the National Coordinating Committee (NCC), and coordinate efforts with other donors on the committee to improve the quality and timeliness of population census results.**

**Response to Recommendation 1:** USAID/Madagascar agrees with the recommendation. Based on the current internal team division of labor (see attachment 1) the CDC PMI advisor is responsible for attending these meetings. USAID will ask the new Foreign Service National (FSN) staff to attend with the new CDC PMI advisor so that two members of the PMI team are in attendance at these meetings. The PMI team will continue to have weekly meetings to ensure that all PMI team members are up to date on notable progress and activities across all areas.

**Recommendation 2.** *[Redactions in this section of the report represent information that could identify an individual USAID employee. Personally identifiable information is subject to protection under the Privacy Act and other laws. The disclosure of the identity of this individual employee would not advance the public's right to know and understand the operation of the program that is the subject of this audit]***.**

**Recommendation 3. Implement a plan to distribute unused nets from previous campaigns.**

**Response to Recommendation 3:** USAID/Madagascar agrees with this recommendation and a plan was drawn up in January 2014 (see attachment 2).

**Recommendation 4. Implement a plan to improve monitoring and oversight of its net distribution activities, including visits to warehouses storing nets, to make sure distributors are working effectively and consistently.**

**Response to Recommendation 4:** USAID/Madagascar agrees with the recommendation to improve monitoring and oversight of its net distribution activities. A monitoring plan specific to the warehouses will be drawn up by May 30, 2014.

**Recommendation 5. Determine the allowability of $75,838 in questioned cost-share contributions made by PSI and disallow any amounts determined to be unallowable.**

**Response to Recommendation 5:** USAID/Madagascar agrees with the recommendation and will ask the USAID/Madagascar Agreement Officer to make a determination of the allowability of $75,838 in questioned cost-share made by PSI. We have asked the Agreement Officer to make this determination by June 15, 2014 (see attached letter to the Agreement Officer – attachment 3).

**Recommendation 6. Ask PSI to remove similar amounts not sampled from its reported cost-share contributions, and verify that these amounts are reflected in PSI's financial forms, called Standard Form 425 reports.**

**Response to Recommendation 6:** USAID/Madagascar agrees with this recommendation and will ask PSI to remove all unallowable costs from reported cost-share not sampled from its reported cost-share contributions and USAID/Madagascar will verify that these amounts are reflected in PSI's financial forms.

**Recommendation 7. Determine the allowability of $187,419 in questioned cost-share contributions made by PSI attributable to the U.S. Government's share of Global Fund funding and disallow any amounts determined to be unallowable.**

**Response to Recommendation 7:** USAID/Madagascar agrees with the recommendation and will ask the USAID/Madagascar Agreement Officer to make a determination of the allowability of $187,419 in questioned cost-share made by PSI. We have asked the Agreement Officer to make this determination by June 15, 2014 (see attached letter to the Agreement Officer – attachment 3).

**Recommendation 8. Verify that these amounts are reflected properly in PSI's Standard Form 425 reports.**

**Response to Recommendation 8:** USAID/Madagascar agrees with the recommendation to verify that amounts are reflected properly in PSI's Standard Form 425 each quarter. If the necessary information cannot be obtained from the SF425, the Agreement Officer will be asked to modify the agreement so that the information is obtained in the quarterly report.

**Recommendation 9. Implement a plan to include periodic review of the composition of implementers' cost-share contributions as part of its normal financial oversight procedures.**

**Response to Recommendation 9:** USAID/Madagascar agrees with the recommendation and will review the composition of implementers' cost-share on a quarterly basis as part of the financial oversight procedures.

**Recommendation 10. Implement a plan, including surprise site visits, to verify that net bags from future PMI distribution campaigns are disposed of properly.**

**Response to Recommendation 10:** USAID/Madagascar agrees with the recommendation to implement a monitoring plan for future PMI-supported net distributions, including surprise site visits, to verify that net bags from future PMI distribution campaigns are disposed of properly.

**Recommendation 11. Rewrite its branding and marking policy to clarify branding expectations given current restrictions on working directly with the Malagasy Government, and disseminate the updated version to its implementers.**

**Response to Recommendation 11:** USAID/Madagascar agrees with this recommendation. On October 26, 2012 an email (see attachment 4) went to our partners asking them to add the following sentence on not co-branding with GOM to their branding plan:

"**So long as the US Government does not recognize the Government of Madagascar, neither USAID nor its partners will co-brand with it, and USAID funding will not be used to produce co-branded materials**."

USAID/Madagascar will remind all partners again.

**Recommendation 12. Instruct PSI to implement an action plan to correct contraceptive storage conditions within 90 days.**

**Response to Recommendation 12:** USAID/Madagascar agrees with this recommendation. USAID/Madagascar sent a formal letter to PSI requesting them to develop and implement an action plan to correct the contraceptive storage conditions within 30 days (see attachment 5).

**Recommendation 13. Quantify excessive salaries paid to PSI employees, determine the allowability of any excessive amounts, and recover from PSI any amount determined to be unallowable.**

**Response to Recommendation 13:** USAID/Madagascar agrees with this recommendation and will ask the Agreement Officer to determine the allowability of any excessive amounts, and recover from PSI any amount determined to be unallowable.

**Recommendation 14. Give agreement officer's representatives (AORs) and contracting officer's representatives written reminders about the importance of complying with Mission Order 203-004 when conducting site visits, and specify appropriate sanctions for repeated failure to do so**.

**Response to Recommendation 14:** USAID/Madagascar agrees with the recommendation and will send a reminder to AORs and CORs about the importance of complying with Mission Orders. USAID/Madagascar will come up with appropriate sanctions for repeated failure.

**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**