OFFICE OF INSPECTOR GENERAL
U.S. Agency for International Development

Award Planning and Oversight Weaknesses Impeded Performance of USAID's Largest Global Health Supply Chain Project

AUDIT REPORT 9-000-21-004-P
MARCH 25, 2021

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MEMORANDUM

DATE: March 25, 2021

TO: USAID Bureau for Global Health, Acting Assistant Administrator, Kerry Pelzman

USAID Bureau for Management, Office of Acquisition and Assistance, Director, Mark Walther

FROM: Principal Deputy Assistant Inspector General for Audit, Van Nguyen /s/

SUBJECT: Award Planning and Oversight Weaknesses Impeded Performance of USAID's Largest Global Health Supply Chain Project (9-000-21-004-P)

This memorandum transmits the final report on our audit of USAID's procurement and management of its Global Health Supply Chain – Procurement and Supply Management (GHSC-PSM) project. Our audit objectives were to (1) assess how USAID's GHSC-PSM contract was designed and awarded and (2) determine whether USAID managed the GHSC-PSM contract to provide for accurate and timely delivery of commodities to selected host countries. In finalizing the report, we considered your comments on the draft and included them in their entirety, excluding attachments, in appendixes B and C.

The report contains 14 recommendations to strengthen USAID's award design and procurement processes and to improve the Agency's management of GHSC-PSM and follow-on awards. After reviewing the information you provided in response to the draft report, we consider six closed (recommendations 8, 10, 11, 12, 13, and 14), and eight open and unresolved (recommendations 1, 2, 3, 4, 5, 6, 7, and 9). Please work with us to resolve these recommendations.

We appreciate the assistance you and your staff extended to us during this audit.

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INTRODUCTION

To help achieve its strategic priorities of preventing child and maternal deaths, controlling the HIV/AIDS epidemic, and combating infectious diseases, USAID's Bureau for Global Heath provides lifesaving commodities to people around the world through its Global Health Supply Chain Program. USAID issued what is, according to an agency official, its largest award in April 2015 to Chemonics to implement the Global Health Supply Chain Program – Procurement and Supply Management (GHSC-PSM) project—the largest component of its Global Health Supply Chain Program. The $9.5 billion contract, with an implementation period of up to 8 years, is the primary project USAID uses to procure and provide health commodities for all its health programs. The project also provides technical assistance to participating countries to strengthen their supply chain management and commodity security practices.

In November 2017, the Senate Foreign Relations Committee requested that USAID's Office of Inspector General (OIG) conduct independent oversight of the GHSC-PSM project and report back with its findings. The committee expressed concerns about the depth of knowledge and ability of USAID procurement and contracting personnel to evaluate contract proposals and performance, given the complex nature of the global supply chain from manufacturer to delivery in-country, and the performance of Chemonics and its ability to meet contract requirements. For example, they were concerned that Chemonics' quarterly reports showed that in the first three months of 2017, only 7 percent of health commodity shipments were delivered to their destination on time and in the right quantities.

Accordingly, we conducted this audit to assess USAID's procurement and management of its GHSC-PSM project.[1] Our objectives were to (1) assess how USAID's GHSC-PSM contract was designed and awarded and (2) determine whether USAID managed the GHSC-PSM contract to provide for accurate and timely delivery of commodities to selected host countries.

To answer the first objective, we reviewed the processes USAID followed to design the project and award the contract, covering the start of the design period in June 2010 to the start of project implementation in January 2016, and related policy and regulations, and interviewed officials responsible for the project design and award processes. To answer the second objective, we conducted site visits to five judgmentally selected commodity recipient countries (Democratic Republic of Congo, Haiti, Rwanda, Ukraine, and Vietnam) which were chosen based on geographic area and the volume and value of commodities procured under the GHSC-PSM project; administered an online survey to

[1] OIG's Africa Regional Office concurrently conducted an audit of USAID's in-country management of its Global Health Supply Chain Program. The objectives were to (1) examine how USAID assessed risks for in-country supply chains and (2) determine the extent to which selected missions in Africa undertook activities that aligned with good practices for addressing the root causes of in-country supply chain weaknesses. USAID OIG, "USAID'S Global Health Supply Chain Would Benefit From More Rigorous Risk Management and Actions To Enhance Local Ownership" (4-936-20-002-P), July 10, 2020.

USAID activity managers and analyzed their responses; interviewed USAID, Chemonics, and project partner staff; compared reported performance to targets to determine the timeliness and accuracy of deliveries; and analyzed documents and tools developed by Chemonics to address identified performance issues. We reviewed USAID's management of the project from its start in January 2016 through November 2019. We conducted our work in accordance with generally accepted government auditing standards. Appendix A contains our full scope and methodology.

SUMMARY

Weaknesses in USAID's planning and evaluation processes hindered the Agency's ability to design and award the GHSC-PSM contract with the necessary documentation to fully support key decisions made. Specifically:

- During the design phase, the assigned contracting officer had limited involvement and raised concerns about the proposed design that was ultimately approved. Federal regulations require the project design team to obtain the contracting officer's concurrence in all acquisition planning, but USAID lacked clear guidance on the role and extent of contracting officer involvement during this period.
- USAID documented in general terms how it arrived at key decisions for how the project would be structured, but it did not sufficiently document its reasons for deciding to use a single implementer and opting for cost-plus-fixed-fee task orders because USAID lacked clear guidance for doing so.
- USAID did not document how it planned to address risks associated with project performance and using a single implementer, such as the risk of the implementer underperforming without USAID having other implementers to fall back on. Although this information was prompted for in the acquisition plan template, USAID lacked guidance on how to address these risks in preparing the plan.
- In evaluating proposals to determine the winning bidder, the Agency did not verify capabilities of the management information system proposed by the winning bidder, despite the system being a factor USAID relied on to differentiate between the two bidders. USAID also made errors in its evaluation of the winning bidder's past performance.
- Significant delays throughout the award design and procurement processes pushed out the start of the project's implementation by approximately 3 years after expected. The Agency lacked guidance on expected timeframes for moving through each step of the procurement process, which if it had existed at the time may have helped USAID manage the award process in a timelier manner.

We determined that most line items were delivered in the right quantities, but more oversight is needed to improve timeliness of deliveries and contractor performance. Specifically:

- USAID officials took multiple actions to address issues with the timeliness of deliveries at the project's outset, and Chemonics began reporting significant improvements in on-time delivery rates. However, the project also reported it was taking longer for orders to be processed and received—in part because two tools introduced to improve predictability and reliability (the order promising tool and the early delivery reason code) affected what could be counted as on time. These changes to the implementer's internal processes allowed for a longer time to fulfill orders and for agreed delivery dates to be moved to an earlier date. Because these changes were made concurrently with other mitigating measures designed to improve performance, such as an action plan and salary freezes, the Agency cannot determine the extent to which its reported results reflect actual improvements in performance.
- The project pre-positioned commodities in regional distribution centers to decrease transit time, shorten order fulfillment time, and reduce cost. However, because GHSC-PSM staff did not track the amount of orders filled by the centers, the project and USAID did not know how much they were being used and whether any adjustments were necessary to improve the effectiveness or efficiency of the centers.
- While USAID took steps to plan for the transition between the prior projects and this one, several operational challenges hindered the Agency's ability to effectively oversee a project of this size and scope. For example, USAID's Bureau for Global Health lacked a separate central supply chain unit to provide coordination support for the different supply chain teams, the operation and use of the project's management information system was delayed, and project restructuring by Chemonics created confusion and operational delays.

As the Agency prepares to design its next award to continue this supply chain work, we made 14 recommendations to strengthen USAID's design and procurement processes and improve its management of the GHSC-PSM award and successor projects. USAID agreed with the 14 recommendations, but additional actions are needed for USAID to fully address some of them.

BACKGROUND

Global health has long been a priority of USAID, with its programs working to save lives, protect people most vulnerable to disease, and promote the stability of communities and nations. To help achieve its strategic priorities of preventing child and maternal deaths, controlling the HIV/AIDS epidemic, and combating infectious diseases, USAID's Bureau for Global Heath has provided lifesaving commodities to people around the world for more than 30 years.

USAID's Global Health Supply Chain Program, managed by the Bureau for Global Health, is a collection of complementary projects working to achieve stronger, more resilient health supply chains that ensure an uninterrupted stream of quality health products and services for millions of people worldwide. In the decade leading up to the current program structure, USAID had been carrying out these activities through four primary projects. Two of these focused on global procurement and delivery of health commodities and provision of technical assistance in supply chain and systems strengthening:

- DELIVER (implemented by John Snow Inc., 2006-2017) oversaw the procurement and delivery of medications and other commodities for malaria, family planning, and emerging pandemic threats.
- Supply Chain Management System (SCMS) (implemented by Partnership for Supply Chain Management, 2005-2016) focused on delivering commodities for HIV/AIDS activities as part of the U.S. President's Emergency Plan for AIDS Relief (PEPFAR).

The other two projects, System for Improved Access to Pharmaceuticals (implemented by Management Sciences for Health) and Promoting the Quality of Medicines (implemented by United States Pharmacopoeia), focused on strengthening health systems by working to ensure the availability of quality assured pharmaceutical products and effective pharmaceutical services and strengthening quality assurance mechanisms at the country level.

USAID designed its Global Health Supply Chain Program, which began in 2014, to consist of five projects:

1. The GHSC-PSM project, which is the focus of this audit, fulfills the functions of the previous DELIVER and SCMS projects. Implemented by Chemonics starting in 2016, GHSC-PSM is the largest component of the Global Health Supply Chain Program, accounting for $9.5 billion of the approximately $10.4 billion program.
2. The Global Health Supply Chain – Technical Assistance (GHSC-TA) project is implemented through multiple awards worth $500 million. Awards under this project were issued in February and March 2015 to Axios International, Chemonics, Guidehouse LLP, and Logistics Management Institute, with a 5-year ordering period. The purpose of this project is to provide expert labor performing technical assistance in strengthening country supply systems and strategic collaboration in improving the long-term availability of health commodities.
3. The Global Health Supply Chain – Rapid Test Kits (GHSC-RTK) project is implemented through a $300 million award to Remote Medical International. The award was issued in February 2015 and has a 5-year ordering period. This project is the primary vehicle through which USAID procures and provides HIV rapid test kits.
4. The Global Health Supply Chain – Quality Assurance (GHSC-QA) project is implemented through a contract with FHI 360. The $123 million award was issued in December 2014 and has a period of performance of 5 base years with 3 option

years. This project is USAID's primary vehicle to help assure the quality of health commodities procured in support of global health programs.

5. The Business Intelligence and Analytics (BI&A) project was implemented through a Federal supply schedule task order to IntelliCog, Inc. The $13 million project was issued in April 2014 and had a period of performance of 1 year which could be extended through four 1-year option years. The purpose of the project was to build and maintain a business intelligence and analytics platform and provide technical services for and on behalf of the Bureau for Global Health and its supply chain business initiatives.

GHSC-PSM Project

In designing GHSC-PSM, USAID merged the DELIVER and SCMS projects with the aim to achieve economies of scale and to make it easier to manage. As the sole implementer of GHSC-PSM, Chemonics is responsible for improving the provision of essential health commodities, strengthening in-country supply chains, and encouraging the use of strategic engagement to improve the long-term global supply of health commodities.

The award includes the following specifications and major components:

- *Awarded to a single source.* GHSC-PSM was designed to be issued as a single award.
- *Indefinite delivery, indefinite quantity (IDIQ).* This award type allows for flexibility in the amount of services and supplies used under the contract.
- *5-year ordering period for issuing task orders under the IDIQ.* Any USAID mission and office can buy into the contract services through the issuance of task orders.[2] Through this mechanism, a mission or office could place orders for up to 5 years, with a period of performance that ends with the expiration of the last task order and extends no more than 3 years beyond the end of the ordering period.[3]
- *Cost-plus-fixed-fee task orders.* For GHSC-PSM, USAID selected a cost-reimbursement type contract that allows payment of a negotiated fee to the implementer that was set at the start of the contract. The fixed fee does not vary with actual costs incurred, and this contract type provides a minimum incentive to control costs. According to the Federal Acquisition Regulation (FAR), USAID should use such cost-reimbursement contracts when it is not possible to define the Agency's requirements sufficiently to use a fixed-price contract, or when uncertainties in contract performance do not allow costs to be estimated sufficiently to use a fixed-price contract.[4] Although all four task orders issued under the award were cost-plus-fixed fee, the contract also allowed the issuance of firm-fixed-price task orders.

[2] The Federal Acquisition Regulation (FAR 2.101) defines a task order as an order for services placed against an established contract. For the GHSC-PSM project, task orders were placed against the IDIQ contract.
[3] In March 2016, the ordering period was extended to November 23, 2020.
[4] FAR 16.301-2, "Application."

As of September 2016, USAID issued task orders to five Agency operating units—four to offices within the Bureau for Global Health and one to USAID/Kenya—with periods of performance expected to end in December 2021 or November 2023. For this audit, we reviewed the four task orders issued to Bureau for Global Health offices—the Offices of HIV/AIDS, Infectious Disease, Population and Reproductive Health, and Maternal and Child Health and Nutrition—who used the project to procure a wide range of commodities to support the Agency's major global health initiatives, as shown in table 1.

Table 1. Commonly Procured Items for GHSC-PSM Activities Under the Task Orders Managed by USAID's Bureau for Global Health

USAID Operating Unit	Commonly Procured Items
Office of HIV/AIDS	• Antiretroviral therapies • Laboratory diagnostics, equipment, and consumables[5] • Drugs to treat opportunistic infections
Office of Infectious Disease (for the President's Malaria Initiative)	• Long-lasting insecticide-treated bednets • Therapies and drugs for treatment of malaria • Insecticides, equipment, and supplies for indoor residual spraying • Antimalarial drugs for the preventative treatment of pregnant women • Rapid diagnostic tests, laboratory supplies, and equipment for malaria diagnosis
Office of Population and Reproductive Health	• Contraceptives • Family planning tools
Office of Maternal and Child Health and Nutrition	• Medicines for pregnancy, labor and delivery, postpartum/natal, and complications from pregnancy • Medicines for essential newborn care and neonatal complications • Medicines for child health • Medical equipment • Zika-related commodities

Source: OIG analysis of task orders issued to USAID headquarters operating units.

GHSC-PSM has reported making important contributions to USAID's health programs around the world under each task order. For example, in fiscal year 2018, Chemonics reported the following project accomplishments:

- *Office of HIV/AIDS:* GHSC-PSM delivered enough antiretroviral therapies to provide 2.4 million adults with years of treatment and supported ministries of health to transition to a new preferred first-line treatment.
- *President's Malaria Initiative*: GHSC-PSM delivered antimalarial treatments for 80.1 million infections, distributed 21.7 million long-lasting insecticide-treated bednets,

[5] Consumables are materials that have limited use and must be replaced regularly.

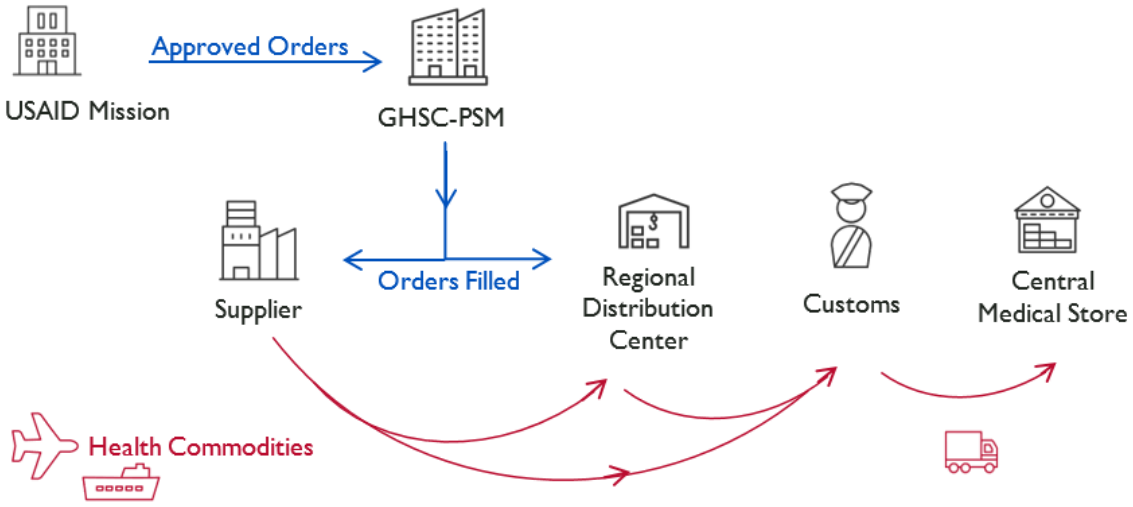
and influenced important shifts in policy regarding the bednets and rapid diagnostic tests.

- *Office of Population and Reproductive Health*: GHSC-PSM delivered enough contraceptives to provide 22.7 million couples with years of protection.
- *Office of Maternal and Child Health and Nutrition*: GHSC-PSM procured $4.8 million in maternal and child health products, helped to define conditions under which an important drug that is used to treat postpartum hemorrhage should be stored and transported, and advised on how to ensure the visibility and availability of products. It also procured $4.7 million in mosquito repellent to prevent Zika infection in pregnant women.

Procuring Commodities Through GHSC-PSM

While procuring commodities through GHSC-PSM varies somewhat by commodity type and country, figure 1 shows the typical path from when an order is placed to when it arrives at the central medical store in the destination country.

Figure 1. Typical GHSC-PSM Supply Chain Paths, From Order Placed to Arrival at In-Country Central Medical Store



Source: OIG analysis of GHSC-PSM project processes.

Initial planning for commodity procurement begins at the country level, with the host government conducting regular forecasting and supply planning exercises to estimate demand for each commodity. Using the host country's forecasting information, plans for other donor contributions, and their own funding information, USAID missions' health offices plan for their expected commodity procurements, and then USAID activity managers in the missions (for countries without a project field presence) or GHSC-PSM

field teams (for countries with a project field presence) submit requisition orders to Chemonics headquarters.

Once the orders reach Chemonics, GHSC-PSM procurement specialists process them, which includes reviewing the orders to make sure the right products and quantities are reflected in the requisition order and seeking clarification from the USAID ordering mission, when necessary.

Once an order is reviewed, GHSC-PSM can move forward with its determination of how best to fulfill the order—either through its pre-positioned stock in a regional distribution center (a distribution order) or through procuring the item directly from the commodity supplier (a purchase order). If the ordering mission agrees, the activity manager approves the requisition order, and Chemonics sets an agreed delivery date.

Commodities are commonly shipped either via air or ocean freight.[6] When the goods arrive in-country, GHSC-PSM must ensure that they are accepted by the destination country's customs agents. The project's responsibility for the commodities typically ends with their delivery to the central medical store, a common starting point for the in-country supply chain, which the country's government oversees to meet the needs of end users.

To determine the timeliness of a delivery, GHSC-PSM compares the date it delivered the commodities to the agreed delivery date. To be considered as an on-time delivery, GHSC-PSM must complete its delivery within the window of 14 days before or 7 days after the agreed delivery date.

USAID's Project Design and Procurement Processes

USAID Global Health officials said that the project design and procurement processes for GHSC-PSM began in June 2010 and culminated in the awarding of the contract in April 2015.

In 2011, during the design phase of the GHSC-PSM project, USAID changed its project design policies and processes and incorporated these changes into its program cycle operational policy in January 2012, as described in its Automated Directives System (ADS) chapter 201. Based on our review of Agency guidance applicable at the time the design team from the Bureau for Global Health was designing the GHSC-PSM project, headquarters operating units could apply the elements of this guidance it found relevant and helpful, but it was not required.[7] Although this guidance was optional for headquarters-based operating units, USAID personnel were still required to follow FAR requirements. The project design process employed by USAID's design team consisted of the following three stages:

[6] GHSC-PSM can either ship goods to regional distribution centers to be pre-positioned for future orders or ship goods directly from the manufacturer to the destination country.

[7] USAID's current policies, as outlined in ADS 201, apply in their entirety to field-based operating units and are encouraged to be adopted, when feasible, by Washington-based operating units.

1. *Concept stage*. During this stage, the design team was to define the basic parameters of the project. Activities included (1) defining the project design team, (2) defining the development challenge and identifying the problem to be addressed, (3) developing the preliminary logical framework, and (4) identifying and analyzing the stakeholders. The final product of this stage was the concept paper. USAID's Board for Acquisition and Assistance Reform (BAAR) reviewed certain concept papers to determine if the projects needed to be restructured to increase competition, increase transparency, expand opportunities for small businesses, promote creative or innovative approaches, or otherwise respond to applicable policy.[8] To be considered by the BAAR, the proposed concept needed to meet criteria related to the type of contract, limitation of competition, and size of the award or award modification.
2. *Analytical stage*. During this stage, the design team was to perform analysis to understand the identified problem and constraints and address critical assumptions. This analysis was synthesized into the final logical framework and project design. The final product of this stage was the Project Appraisal Document. However, for GHSC-PSM, the design team did not prepare a separate Project Appraisal Document and instead considered that its concept paper filled this role.
3. *Project authorization.* Project authorization gave substantive approval for a project to move from the planning stage to implementation. During this stage, the project design was approved, the project's purpose and duration were defined, and the budget was approved.

After authorization, the project would then move into the procurement process. This included preparing an acquisition plan that addressed the technical, business, management, and other significant considerations required to make the acquisition. The technical office design team then would prepare key documents, such as the statement of work, the evaluation criteria, and instructions to bidders. The design team then worked with the assigned contracting officer to establish timeframes for the completion of the process.

The contracting officer prepared a request for proposals and advertised it for interested bidders. When proposals were received, they were evaluated by a technical evaluation committee which documented its evaluation for the contracting officer's consideration in selecting the successful bidder.

[8] USAID established the BAAR in 2010 to support and encourage a shift from large, long-term awards to smaller, more focused awards to increase competition and broaden its partner base. In 2018, USAID replaced the BAAR review when it established the Senior Obligation Alignment Review process.

WEAKNESSES IN PLANNING AND EVALUATION PROCESSES HINDERED USAID'S ABILITY TO FULLY SUPPORT KEY DECISIONS MADE IN THE DESIGN AND AWARD OF THE CONTRACT

Weaknesses in planning and evaluation processes hindered the Agency's ability to design and award the GHSC-PSM contract with the necessary documentation of analysis to support key decisions made. During the design phase, process weaknesses included lack of evidence of the involvement of the assigned contracting officer—who raised concerns about the project design—and lack of documentation behind key award design decisions and associated risks. In evaluating proposals, the Agency did not verify capabilities of the winning bidder's proposed management information system and made errors in evaluating its past performance. In addition, significant delays throughout the award design and procurement processes pushed out the start of the project's implementation by approximately 3 years after expected.

USAID's Contracting Officer Supporting GHSC-PSM During Acquisition Planning Raised Concerns About the Project Design

According to the FAR, contracting officers are responsible for ensuring performance of all necessary actions for effective contracting, including ensuring compliance with all laws, executive orders, regulations, and other applicable procedures.[9] These regulations require that during acquisition planning, a team consisting of all those who will be responsible for significant aspects of the acquisition, including contracting, be assembled. One member of the team fulfills the role of the acquisition planner who must coordinate with and secure the concurrence of the contracting officer in all acquisition planning.[10] USAID policy requires that program and technical offices include contracting or agreement officers in the design stage of an award.[11]

USAID officials reported that they began planning for the GHSC-PSM project in 2010, and the Bureau for Global Health assembled a team responsible for the project's design. The team included technical experts from several offices within the Bureau for Global Health: the Offices of HIV/AIDS, Population and Reproductive Health, and Health and Infectious Disease. In addition to health technical experts, one member of the team was an information technology expert. USAID's Office of Acquisition and Assistance (OAA) also assigned a contracting officer to support the development of the Global Health Supply Chain Program, including the GHSC-PSM design.

However, we were unable to find evidence of how the assigned contracting officer was involved in the design of the GHSC-PSM project, and current officials from OAA, who were not assigned to support the design of this project, said that this is a routine practice. Because of his lack of involvement, after the design team unveiled its plan for

[9] FAR 1.602-1(b), "Authority," and 1.602-2, "Responsibilities."
[10] FAR 7.104 (a) and (c), "Acquisition Plans: General Procedures."
[11] USAID's Automated Directives System (ADS) 300.3.5.

the project, the assigned contracting officer raised concerns about the design to the chief acquisition officer/senior procurement executive director within OAA. The first formal meeting with the contracting officer about the decisions made about the project design took place on August 29, 2011, which was just less than 1 month before Global Health officials would present the proposed project to the BAAR for approval on September 23, 2011. During the August 29 meeting, design team members presented their plans for the overall Global Health Supply Chain Program, which included the design of the GHSC-PSM project as a single award with IDIQ flexibilities. Following the meeting, members of OAA raised significant concerns to various USAID offices about the project design:

- On August 29, 2011, the division chief for Global Health in OAA expressed his concerns via an email to members of the design team, USAID's Office of General Counsel, and other members of OAA about having sufficient understanding of the project prior to presenting it to the BAAR.
- In a September 2011 memo routed to the chief acquisition officer/senior procurement executive director within OAA, the contracting officer raised concerns with the single award structure proposed by the design team. He noted that the design team had consulted extensively with supply chain experts but not with acquisition experts. In taking this approach, the contracting officer felt that the design team had not given adequate consideration to several risks related to acquisition strategy, which may have resulted in "a serious imbalance in the final design" of the project. The contracting officer stated that if he were consulted, he would advise reducing the size and complexity of the proposed project, leaving it in separate component pieces.

In September 2011, Global Health officials presented the proposed project to the BAAR, with limited discussion of some of the contracting officer's concerns noted.[12] The BAAR approved the single-award approach in November 2011, signaling that USAID could proceed with the development of its Global Health Supply Chain Program, which would include the development of the GHSC-PSM project as a single-award IDIQ.

In December 2012, the contracting officer wrote in an email to new leadership within OAA that he did not know if the September 2011 memorandum in which he documented concerns about the project design was widely shared, but he believed that the members of the BAAR did not understand that OAA had concerns about the proposed project. Also, he stated he did not feel that there was a place to raise his concerns during the meeting with the BAAR. USAID officials from Global Health and

[12] The memorandum transmitting the BAAR's approval of the single-award IDIQ includes a description of items discussed and USAID's planned actions to address them. To address concerns about the sufficiency of staff in OAA, USAID/OAA proposed hiring two or three acquisition experts. To address concerns about the heightened risk of protest after the award was made, USAID planned to prepare and follow a well-documented acquisition plan. To address concerns about the reduction of competitive offers in the future, USAID stated that it expected to issue the award to a large consortium rather than a single firm. However, USAID did not follow through with these planned actions.

OAA working with the GHSC-PSM project in March 2020 said that they were not aware of the contracting officer's concerns.

USAID policy calls for the participation of the contracting officer in the design stage of a project, but it does not elaborate on the level of participation required by the contracting officer during this stage.[13] For example, Agency policy does not clarify the role of the contracting officer during this stage or what steps should have been taken when the contracting officer and global health experts disagreed on significant award design decisions, nor does it detail what constitutes as contracting officer concurrence on award design, as required by the FAR. In the case of GHSC-PSM, decisions made by the design team—such as the use of a single contractor to implement the project and not using performance-based incentives—influenced what contractual instruments could be used to implement the project. Earlier consultation with the contracting officer during the design phase could have allowed technical design team members to more thoroughly consider, early on when planning the project design, different contract mechanisms, program structures, or insights on risks raised by a contracting specialist.

USAID still lacks a clear policy outlining the level of participation required from the contracting officer and their role in decision making during the design stage to ensure compliance with the FAR.

USAID Made Key Award Design Decisions With Limited Documentation, Despite the Award's Size and Scope

The FAR outlines documentation requirements for government contract files.[14] According to the FAR, documentation in the files must be sufficient to provide a "complete background as a basis for informed decisions at each step of the acquisition process."[15] Examples of the records normally contained in contract files, if applicable, include justifications and approvals, determinations and findings, and associated documents.[16] This documentation is important because it provides a means of retaining knowledge, mitigating the risk that knowledge will be limited to only a few people, and communicating that knowledge to external parties. By maintaining this documentation, USAID can support how it performed its due diligence in designing the GHSC-PSM project and that it considered risks when making decisions.

In designing the GHSC-PSM project, USAID documented in general terms how it arrived at key decisions for how the project would be structured, including its decisions to award the contract to a single implementer and to use cost-plus-fixed-fee task orders. However, for key assertions that served as the basis for these decisions, USAID did not document the evidence and analysis behind the assertions as there is no clear guidance on what is required to ensure that analysis is sufficiently supported. In not

[13] ADS 300.3.4, "Procurement Action Lead Time (PALT)" was updated to ADS 300.3.5 in an update to USAID policy. Both versions of this policy require that program and technical offices must include their contracting officer in the design stage of their actions.
[14] FAR 4.8, "Government Contracting Files."
[15] FAR 4.801 (b)(1), "Government Contracting Files."
[16] FAR 4.803, "Content of Contract Files."

documenting its analysis, it was unclear how USAID supported its conclusions that contributed to key design decisions.

Two areas in which the design team could have improved its documentation to support its decisions were in deciding to (1) use a single implementer for the project and (2) design cost-plus-fixed-fee task orders.

Using a Single Implementer

The FAR gives a strong preference for multiple awards or multiple implementers to encourage competition and reduce risk.[17] These regulations allow for the use of a single-award IDIQ, such as GHSC-PSM, in certain situations, including when it is determined that only one contractor can reasonably perform the work because either the work is unique or highly specialized or the tasks are so integrally related. USAID policy incorporates this guidance by stating that in instances where IDIQs are determined to be in the best interest of the Agency, there are statutory and regulatory preferences for making multiple awards of IDIQs because single-award IDIQs reduce competitive opportunities and may create a reliance on one contractor, increasing program vulnerabilities.[18]

In requesting approval to use a single implementer for the GHSC-PSM project, USAID Global Health officials said that the following tasks to be performed were so integrally related that only a single source could perform them: (1) aggregating drug and supply requests across multiple clients in many countries; (2) negotiating advantageous terms for procuring commodities; and (3) maintaining an efficient and reliable supply chain.

However, USAID lacked documented analysis to justify how it arrived at these conclusions. In the award documentation we reviewed—including the concept paper, acquisition plan, and approval memoranda—analysis and evidence to support the rationale behind USAID's assertions that only a single source could perform these tasks in the future was not documented. At the time, the Bureau for Global Health was implementing these elements of the supply chain program through two awards. In its formal request to OAA for approval of the single-award IDIQ, the bureau stated that the current project was built upon the successes of those two prior projects.

In its concept paper and in interviews, USAID further justified its decision to use a single implementer by stating that the consolidation of the prior two Global Health Supply Chain projects into a single award would achieve cost savings and improve efficiencies and economies of scale. This would also provide Global Health with a central buyer for all health commodities. To arrive at this conclusion, the project design team relied on a report from supply chain specialists that looked at four private sector companies and the Department of Defense that transformed aspects of their supply chain functions, and selected some of their best practices that USAID could incorporate into a new supply

[17] FAR 16.504, "Indefinite-Quantity Contracts."
[18] ADS 302.3.4.6.a, "Indefinite Delivery/Indefinite Quantity IDIQ Contracts – Planning of Awards: Single-Award IDIQ Determination"

chain model.[19] According to the consultant's report, the transformations made by these companies and the Department of Defense closely related to weaknesses identified in USAID's supply chain under the previous projects. One company experienced cost savings by consolidating its multiple supply chains. USAID estimated that combining the two existing supply chains would save at least $10 million per year in various management costs, such as the management information system and operations. However, USAID did not conduct any studies, evaluations, or comparisons to test whether the results achieved by the private sector company would translate to the type of work USAID was doing, or to provide a basis for the $10 million figure. Although USAID designed the award with these expected benefits in mind, there was no plan in place to measure whether they had been achieved. A USAID official said that cost savings and other efficiencies would accumulate over time, and at the time of the audit—about 2.5 years into implementation—not enough time had passed to determine if USAID was achieving the expected benefits of the consolidation.

Designing Cost-Plus-Fixed-Fee Task Orders

When acquiring GHSC-PSM, the FAR allowed USAID to choose from a wide selection of contract types that provided flexibility in acquiring the large variety and volume of supplies and services required.[20] For example, the design team and contracting officer needed to weigh how the implementer would assume the costs of performance and how to reward the implementer for meeting or exceeding the goals of the project. In choosing to issue cost-plus-fixed-fee task orders, USAID agreed to provide its implementer with a fee that was set at the beginning of the contract, but it provided the implementer little incentive to control costs.[21] The FAR requires that each contract file include documentation to show why the particular contract type was selected.[22] For contracts like GHSC-PSM that include cost-reimbursement mechanisms—which are generally considered to be more risky than contracts with a firm, fixed price—this decision must be documented in an acquisition plan. USAID policy requires that the acquisition planner and the contracting officer work closely together to ensure the acquisition plan complies with the requirements of FAR Part 7.105.[23] This section requires a discussion of the rationale for the selection of the contract type. Acquisition personnel must include in the acquisition plan findings that detail the particular facts and circumstances (e.g., complexity of the requirements, uncertain duration of the work, contractor's technical capability and financial responsibility, or adequacy of the contractor's accounting system) and associated reasoning essential to support the contract type selection. The contracting officer must ensure that requirements and technical personnel provide the necessary documentation to support the contract type selection.[24]

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[19] USAID Supply Chain Architecture: Expert Review, submitted by The QED Group, LLC, with CAMRIS International and Social & Scientific Inc., under contract GHS-I-00-05-00005-00.
[20] FAR 16.101(a), "Selecting Contract Types; General."
[21] FAR 16.306 "Cost-Plus-Fixed-Fee Contracts."
[22] FAR 16.103 (d)(1), "Negotiating Contract Types."
[23] At the time of contract design, this requirement was found in ADS 300.3.9.3. In current ADS policy, this requirement is found in ADS 300.3.5.3.
[24] FAR 7.105 (b)(3), "Contents of Written Acquisition Plans; Contract Type Selection."

Both the supply chain architect review and a December 2011 review of the SCMS project, which was combined with DELIVER to form GHSC-PSM, recommended that such contracts be performance-based to better hold the contractor accountable to agreed-upon outcomes and to incentivize continuous improvement.[25] However, USAID decided not to implement this recommendation, and the final acquisition plan for GHSC-PSM allowed for cost-plus-fixed-fee or firm-fixed-price task orders within GHSC-PSM. The project's IDIQ contract stipulates that there will be a set dollar amount for fixed fee for each cost-plus-fixed-fee task order issued as part of this award. With the decision to issue cost-plus-fixed-fee task orders to a single source, in addition to being reimbursed for costs incurred, Chemonics will receive a fixed fee of up to $23.7 million over the life of the contract if its performance is considered satisfactory by USAID.

For the task orders issued at the time of the award, the project design team opted to design all three to be cost-plus-fixed-fee. In its acquisition plan, USAID documented the reasons it elected to not use firm-fixed-price task orders. However, the Agency did not include justification of its decision to design cost-plus-fixed-fee task orders over the other alternatives available, such as a cost-plus-award-fee task order, which included incentives to provide motivation for excellence in contract performance.[26]

According to the acquisition plan, USAID decided not to use firm-fixed-price task orders because the Agency could not adequately estimate the number of countries that would participate in the program, the technical assistance needs of those countries, and the quantities and types of commodities in order to use firm-fixed-price task orders. However, USAID did not explain why the historical data it had from decades of experience implementing Global Health Supply Chain projects was not sufficient to inform these estimates. USAID also noted that using firm-fixed-price task orders would present a risk if field demand were less than anticipated.

While USAID did not document in the acquisition plan why it opted to use cost-plus-fixed-fee task orders, according to Bureau for Global Health officials who were on the design team, they considered the use of other mechanisms as a possible mitigating measure for cost risk. They stated that performance-based award fees would be too substantial on an award of this size. Also, since a fee cannot be paid on commodities, performance-based award fees based solely on technical assistance would be too subjective for staff to decide. By not documenting their analysis, USAID had no record to support how the Agency reached the conclusions that led to these decisions being made.

[25] External Review of USAID's PEPFAR SCMS Project Evaluation: Technical Assistance and Health Systems Strengthening, submitted by The QED Group, LLC, with CAMRIS International and Social & Scientific Systems, Inc., under contract GHSC-I-00-00005-00, December 2011.

[26] FAR 16.305, "Cost-plus-award-fees." A cost-plus-award-fee contract "is a cost-reimbursement contract that provides a fee consisting of (a) a base amount (which may be zero) fixed at inception of the contract and (b) an award amount, based upon a judgmental evaluation by the Government, sufficient to provide motivation for excellence in contract performance."

USAID Did Not Document How It Planned To Address Risks Associated With Project Performance and Using a Single Implementer

The risk assessment process is an integral part of developing an effective internal control system that increases the likelihood that an entity will achieve its objectives and goals. Federal regulations require the assessment of technical, cost, and schedule risks while developing an acquisition plan for a new project. An acquisition plan must discuss these risks and describe what efforts are planned or underway to reduce risk. Further, as part of the risk assessment process, the plan must include the consequences of failure to achieve the goals of the project.[27]

In preparing its acquisition plan for GHSC-PSM, USAID generally followed the Agency's Individual Acquisition Plan template, which requires documentation of a risk assessment. Although the template includes a prompt to "discuss technical, cost, and schedule risks and describe what efforts are planned or underway to reduce risk and the consequences of failure to achieve goals," there is no additional guidance provided to help the preparer thoroughly address these risks.

In the plan, USAID noted general concerns associated with technical, cost, and schedule risks and measures to mitigate the risks it identified, as shown in table 2.

Table 2. Identified Risks and Mitigating Measures for GHSC-PSM

Risk Category	Identified Risks	Mitigating Measures
Technical risk	• Challenges inherent to working in development countries • Potential break in continuity of services	• Establishing a 6-9 month transition period between projects • Requiring USAID-directed collaboration between implementers • Preparing a comprehensive transition plan
Cost risk	• Exceeding the total cost of the contract • Using a cost-reimbursement type contract • Partnering with local organizations	• Establishing goals and guidelines to reduce costs • Routine monitoring • Partnering with local organizations • Maintaining a rigorous cost control plan and tools for direct costs • Preparing a cost realism analysis for proposals
Schedule risk	• Not awarding the contract on time • Contractor not performing on time and effectively	• Awarding the contract on time • Establishing firm milestones for the completion of the award • Having open communication between OAA and the technical office • Requiring work plans from the contractor • Conducting effective performance monitoring

Source: OIG analysis of GHSC-PSM acquisition plan.

[27] FAR 7.105 (a)(7), "Contents of Written Acquisition Plans."

However, the Agency did not document its determination of the consequences of failing to achieve goals in its acquisition plan, as required. According to the scope of work for GHSC-PSM, the project's goals are to improve availability of health commodities and provide supply chain technical assistance. In its acquisition plan, USAID also laid out its overarching goal for the Bureau of Global Health: improving human health through programs that prevent suffering, save lives, and create a brighter future for families across the globe. This overarching goal is dependent, in part, on an uninterrupted supply of essential health commodities. It was unclear the extent to which USAID considered risks related to project performance and developed controls to respond to these risks to provide reasonable assurance that the project will achieve its goals. USAID officials did not provide an explanation for not including this information in the acquisition plan.

Further, in its risk assessment documented in GHSC-PSM's acquisition plan, USAID did not identify or develop mitigating measures to address the risks associated with awarding the contract to a single implementer. For example, USAID did not identify or develop mitigating measures for risks such as:

- The possibility that the potential bidder might be less experienced in either global procurement and delivery of health commodities or provision of technical assistance in supply chain and systems strengthening.
- A heightened risk for a bid protest by any unsuccessful bidders challenging the terms of the solicitation or the award of the contract.
- The sole implementer may underperform, and USAID would not have other implementers to fall back on.
- Potential for lack of competition in the current bidding process or for future awards.

The contracting officer assigned to support the design team raised concerns in a September 2011 memo to the chief acquisition officer/senior procurement executive director of OAA about the proposed design of the project, questioning how Global Health factored in "several common-sense risk-related questions" associated with a single-source contract. Among these risks were the decreased likelihood of a competitive environment in the future and an increased risk of protest from bidders who were not selected. USAID officials did not provide an explanation as to why these risks related to awarding to a single implementer were not documented. In choosing to award the project to a single implementer, USAID had little leverage to deal with the potential underperformance of the selected contractor.

In Evaluating Proposals, USAID Did Not Verify the Capabilities of a Proposed Management Information System and Made Errors Evaluating the Award Winner's Past Performance

In its request for proposals, USAID outlined the evaluation criteria (6 factors and 16 subfactors) it would use to score proposals and determine the winning bidder to implement the GHSC-PSM project. The Agency listed these factors and subfactors in

descending order of importance (see table 3).

Table 3. USAID Evaluation Criteria for GHSC-PSM Proposals

Factors	Subfactors
1. Global Commodity Procurement and Logistics	a. Health commodity procurement b. Logistics c. Health commodity quality assurance d. Data visibility
2. Systems Strengthening	a. Capability to improve availability of health commodities b. Capability to improve local organizations c. Technical approach to operating a supply chain down to the health facility level
3. Management	a. Strength of management and implementation plan b. Strength of core leadership team c. Reasonableness and quality of Monitoring and Evaluation Plan
4. Global Collaboration	a. Proposed approach to global collaboration
5. Past Performance	a. Quality of product or service b. Cost control c. Schedule d. Business relations e. Management of key personnel f. Proposed major subcontractors
6. Use of Small Businesses	a. Degree of meaningful opportunities for small business participation

Source: USAID's request for proposals for GHSC-PSM.

USAID received proposals from two bidders: the Partnership for Supply Chain Management and Chemonics. USAID convened a technical evaluation committee to evaluate the proposals received against the evaluation factors established in the request for proposals to determine if the bidders would be able to perform the work outlined in the statement of work.

The USAID Acquisition Regulation (AIDAR) outlines the responsibilities of evaluation committees, such as the one assigned to evaluate GHSC-PSM proposals. These regulations state that the committee's chair should prepare written documentation summarizing the evaluation results for each proposal, including an assessment of past performance information. The documentation must also include a narrative justification of the evaluation results. The committee chair provides this documentation to the contracting officer, who is responsible for reviewing the document justifying the evaluation results to determine that it is adequate and complete. If the contracting officer determines that a justification is inadequate, the officer returns it to the chair for revision.[28]

The eight-member technical evaluation committee for GHSC-PSM was composed of officials from the Bureau of Global Health and the State Department's Office of the

[28] AIDAR 715.303-70 (b) (3) and (4), "Responsibilities of USAID evaluation committees."

Global AIDS Coordinator. Five additional officials from the Bureau for Global Health supported the committee as advisors. To ascertain the quality of the evaluation, we reviewed the curricula vitae of members of the Global Health design team, technical evaluation committee, and contracting officers (both the awarding and those currently overseeing the award) and determined that they demonstrated the knowledge, experience, and qualifications to provide input and make decisions regarding the award. We also reviewed nondisclosure statements and certifications of no conflict of interest to determine the independence of each member of the technical evaluation committee. Based on this review, we found no evidence that members were not independent.

The committee conducted several rounds of scoring of the proposals, identifying any strengths or weaknesses in the proposed project, before assigning ratings to each of the evaluation factors and subfactors in each round. [29] After the first two rounds of scoring, the committee sent discussion questions to the two bidders and offered them an opportunity to address any weaknesses, significant weaknesses, or deficiencies identified. The bidders had an opportunity to revise their proposals. In the third and final round of scoring, the technical evaluation committee assigned final ratings to each factor and subfactor. The committee documented its justification in a memorandum that it provided to the contracting officer, who was responsible for the selection decision.

In the initial rating round, USAID rated the Partnership's overall proposal as "Very Good" and Chemonics' overall proposal as "Good." In the second and third rating rounds, both bidders received an overall score of "Very Good."

The scores of both bidders were the same for most categories, with the two sub-factors of logistics and data visibility setting the proposals apart. However, we noted weaknesses with USAID's evaluation of the proposed management information systems and the awardee's past performance.

Evaluation of Proposed Management Information Systems

For the data visibility subfactor, USAID focused on the bidders' proposed management information systems even though an IT advisor to the technical evaluation committee advised against placing too much emphasis on the management information system proposal, since it is a support tool. In its source selection document, which stated the winning bidder and the Agency's rationale behind its selection, USAID stated the importance of the project management information system as integral to all aspects of the award—despite it being ranked as the lowest subfactor under global commodity procurement and logistics. In the source selection document, the Agency noted that the management information system would be critical to ensure quality-assured commodities are procured and delivered in a timely fashion, to prevent occurrence of shortages or stockouts, and to pass along important data to other Global Health Supply

[29] In reviewing the proposals, the technical evaluation committee identified "significant strengths," "strengths," "weaknesses," "significant weaknesses," and "deficiencies" in the projects under evaluation. The committee assigned an adjectival rating of "Outstanding," "Very Good," "Good," "Poor," and "Unacceptable" to each factor and subfactor.

Chain Program contracts for such critical functions as quality assurance and business intelligence and analytics.

USAID was familiar with the management information system—and its limitations—proposed by the Partnership, since it was largely the one used under the previous project, with some proposed modifications. Over the three rounds of proposal ratings, the Partnership's rating for data visibility went from "Good" to "Unacceptable" to "Poor" based on responses to discussion questions and a proposal revision.

Chemonics proposed a management information system, which USAID rated higher than the incumbent's system with proposed modifications. In its source selection document, USAID stated that "Chemonics' proposed solution is a comprehensive and thorough proposal of exceptional merit that presents several advantageous features that fully meet, and in many cases exceed the Government's requirements." Chemonics' data visibility rating went from "Very Good" in the first and second rounds of scoring to "Outstanding" in the final round of scoring.

USAID based its rating on the written narrative provided by Chemonics and several rounds of questions that allowed USAID to increase its understanding of the proposed system but did not require that Chemonics demonstrate the capabilities of that system or test it themselves as there was a lack of guidance in place during the evaluation requiring a bidder to demonstrate the capabilities of its proposed management information system. USAID officials said it may not be possible for companies to invest upfront in developing an information system for demonstration purposes before receiving an award. However, an IT advisor to the technical evaluation committee said that it would have been helpful for evaluating the system if there had been some "use cases" that would demonstrate the performance of various workflows, such as sourcing products, freight forwarding, or other major milestones. By not requiring this, USAID could not verify the functionality of the proposed system to gain more assurance that it would meet USAID's requirements for the project.

USAID has taken steps to improve its evaluation of proposed management information systems. According to current policy outlined in ADS 509.3.4.2, USAID's Chief Information Officer (CIO) must review and approve acquisitions that include information technology. However, this review is conducted through a review of the Individual Acquisition Plan (if one was created) or a statement of work and an independent government cost estimate. Therefore, even when a management information system is considered integral to the project and is expected to weigh heavily in the source selection, there is still no requirement for a demonstration of the capabilities of the system to verify that it will meet the requirements for the project.

Evaluation of Awardee's Past Performance

From our review of the information in the committee's memorandum explaining the basis for its ratings and supporting documents, we determined that USAID's technical evaluation committee made errors in assessing Chemonics' past performance information. Specifically, the technical evaluation committee did not evaluate all

submitted projects from Chemonics, as required, and USAID incorrectly transcribed ratings for Chemonics' only past project demonstrating direct supply chain experience:

- *USAID did not evaluate one submitted project.* The AIDAR states that the evaluation committee is responsible for evaluating the proposals received, based on the evaluation factors set forth in the solicitation document.[30] In its solicitation, USAID instructed bidders to list "at least 3 but no more than 5 of the most recent and relevant contracts for efforts similar to the work in the subject proposal."

  Chemonics put forth five recent projects to be considered for past performance, and the technical evaluation committee's evaluation of the projects determined that Chemonics' past projects demonstrated experience in the provision of technical assistance and systems strengthening work. However, the committee omitted one of these projects when assessing recent and relevant work.

  USAID did not document its reason for excluding the fifth project from consideration, and USAID officials could not explain the omission.[31] The only USAID-produced documentation that references the excluded project are the committee's notes, which state that the excluded project was the only one put forth by Chemonics that "received noticeably negative overall feedback."

  By omitting the fifth project put forth by Chemonics for past performance evaluations, the committee's overall assessment of Chemonics' past performance was incomplete in that it did not consider all information provided. This runs counter to U.S. Government Accountability Office's (GAO) "Standards for Internal Control in the Federal Government," which outlines that quality information is both complete and accurate.[32]

- *USAID incorrectly transcribed ratings for one project.* Of the four Chemonics past projects that USAID evaluated, the committee concluded that none of the contracts evaluated for Chemonics were comparable in size, scope, or magnitude to the requirements of the GHSC-PSM project, and only components of each project could be compared.

  In rating Chemonics' past performance, the technical evaluation committee considered one project put forward—Kenya Pharma—as a significant strength for several subfactors, meaning that it was deemed as having exceeded requirements in a way that this experience greatly increases the likelihood of successful contract performance.[33] For example, the committee rated the project high for the quality of

[30] AIDAR 715.303-70(b)(2), "Responsibilities of USAID evaluation committees."
[31] Auditors reviewed the technical evaluation committee's memorandum explaining its evaluations of the proposals; the source selection document that outlined the contracting officer's decision on which bidder will receive the award; and the negotiation memo that records the key elements of the acquisition decision and serves as the permanent written account of the decisions made. Auditors also interviewed members of the technical evaluation committee and OAA officials.
[32] "Standards for Internal Control in the Federal Government," United States Government Accountability Office, Principle 13.05, "Data Processed into Quality Information."
[33] The purpose of the 5-year, $550 million Kenya Pharma project, issued in February 2009, was to manage the procurement of pharmaceuticals by forecasting, quantification, purchase, quality assurance, storage

service and schedule evaluation subfactors, noting that the Kenya Pharma project provided "excellent service" and produced more than 1,430 reports, with the vast majority being delivered on time.

However, USAID's technical evaluation committee incorrectly rated this project too high for four of the six evaluation subfactors for past performance (see table 4). The committee attributed the supporting narratives for all four subfactors of a different project to the Kenya Pharma project. [34] USAID contracted a consulting firm to compile and verify the past performance information in the proposals of the two organizations submitting offers for the GHSC-PSM award before passing that information to the technical evaluation committee for evaluation. For four subfactors, USAID recorded a rating different than what was provided to the Agency in the past performance matrices prepared by the consulting firm.

Table 4. Incorrect Ratings Documented by USAID's Technical Evaluation Committee While Evaluating Past Performance of Chemonics' Kenya Pharma Project

Subfactor	Rating Provided to USAID	Rating per USAID Technical Evaluation Committee[a]
Quality of Product/Service	Very Good	Exceptional
Cost Control	Very Good	Exceptional
Schedule	Satisfactory	Exceptional
Business Relations	Satisfactory	Very Good
Management of Key Personnel	Very Good	Not Included
Utilization of Small Business	Not Applicable	Not Included

[a] Rating as recorded in the committee's memorandum explaining its evaluations of the proposals.

Source: OIG analysis of documentation submitted by the consulting firm hired to compile past performance information and of the technical evaluation committee's memo.

USAID's Contract Review Board, in its July 2014 meeting, also noted inconsistencies between "statements [in a previous version of the technical evaluation committee memo] and what is actually contained in the [past performance] matrices." [35] The board requested that USAID "conduct a close review of all the statements contained in the narratives against what is actually reflected in the matrices to ensure they are consistent and can be supported."

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and distribution of drugs, supplies, equipment, and other essential commodities for persons with HIV/AIDS and other diseases in Kenya.

[34] We determined that the technical evaluation committee attributed the narratives supporting the ratings for the Worldwide Famine Early Warning Systems Network III project for all four of the citations supporting the rating to the Kenya Pharma project in its memo.

[35] USAID's Contract Review Board is responsible for reviewing documents at the presolicitation, competitive range determination, and pre-award stages to identify problems and recommend corrective actions for proposed contracts of $25 million or more (per ADS 302.3.4.4.a and b). The board is composed of representatives from USAID's Office of Acquisition and Assistance, Office of the General Counsel, and either the Evaluation Division or the Policy Division.

In finalizing the committee's memo, USAID removed the summary statements with the inconsistencies identified by the Contract Review Board to respond to the board's request. In addition, the contracting officer stated in the source selection document that he validated the information for the technical evaluation committee's evaluation of Chemonics' past performance. However, the errors made in transcribing the ratings were not caught or corrected. USAID officials who were members of the committee and from OAA could only speculate on possible reasons for the errors, saying that they had misread the spreadsheet that contained the past performance information.[36]

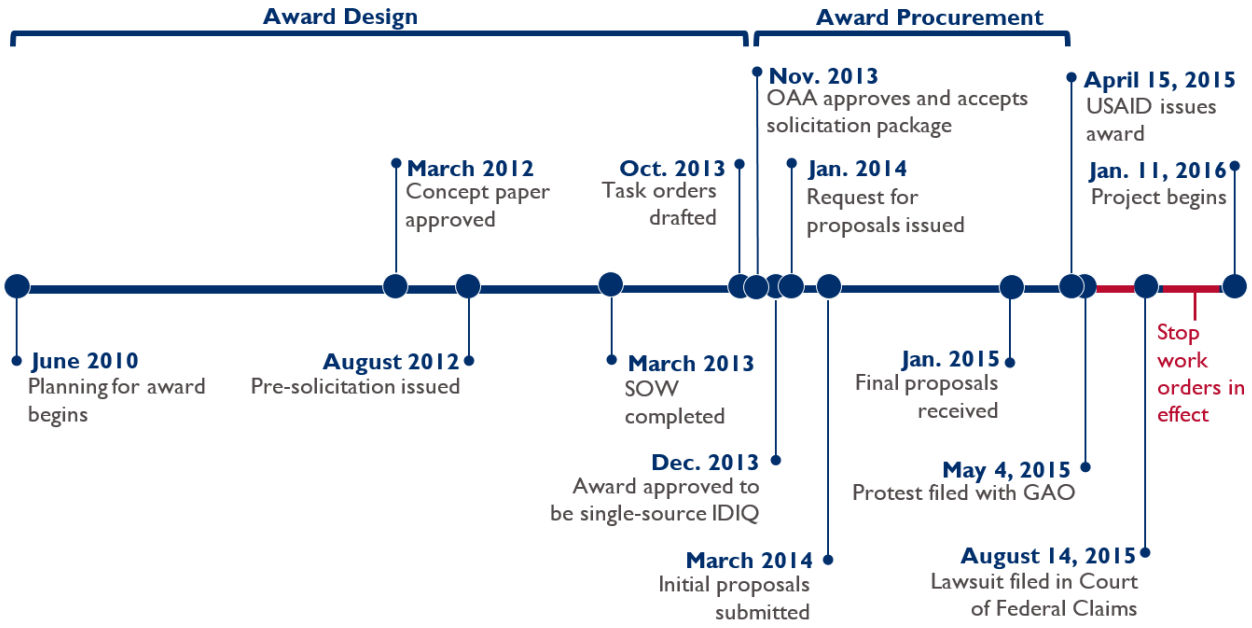
These errors highlight weaknesses in the technical evaluation committee's evaluation of past performance and in the contracting officer's validation of the committee's work. The AIDAR requires the contracting officer to determine that evaluation results are adequate and complete. Therefore, a review of the verification process may identify the gaps that allowed these errors to occur and may decrease the likelihood of similar errors occurring in the future.

USAID Did Not Adequately Establish and Manage Timeframes for the GHSC-PSM Award, Resulting in Significant Delays in Project Implementation

During the planning phase, USAID developed a concept paper outlining its plans for the Agency's overall Global Health Supply Chain Program, including a mechanism dedicated to commodity procurement and supply chain technical assistance. The concept paper identified the need for this new mechanism to be in place to begin the planned supply chain work in early 2013. However, USAID officials said they underestimated the time needed for the design and award phases, and USAID did not move through these phases at a pace that would allow it to meet this goal. The Agency issued the award in April 2015—2 years after anticipated—and the project did not begin until January 2016 (see figure 2).

[36] According to the committee's memo, members reviewed the information provided by the consulting firm that compiled and verified the past performance information in the two proposals, and they did not carry out any additional verification of the information. Therefore, these errors occurred during the committee's evaluation of the information.

Figure 2. Key Milestones in the GHSC-PSM Award Design and Procurement Process



Source: OIG analysis of project documentation.

When the project design team entered the procurement phase in November 2013, it developed a schedule to track the timing of its award procurement actions, as required. The project design team planned for procurement activities to take 381 days.[37] However, these activities took 524 days. The greatest delay during this time came during the technical evaluation committee's review of the proposals. USAID planned for this to take 75 days, but it took more than 1 year to complete because there were three rounds of scoring, with two rounds of discussions and a period for proposal revisions before a final decision was made. The technical evaluation committee first convened on March 19, 2014, and the winning bidder was selected on April 14, 2015.

USAID issued the award the following day, and additional delays followed. The unsuccessful bidder filed a protest with GAO in early May 2015. After GAO denied this protest in August 2015, the organization filed a lawsuit in the U.S. Court of Federal Claims. Both the protest and the lawsuit were decided in USAID's favor.[38] These actions resulted in stop work orders that delayed the start of implementation by more than 8 months.

[37] Although there are no firm standards for the length of the procurement process, ADS 300.3.5 establishes typical lead times needed to award various procurement actions. The typical procurement action lead time for an indefinite quantity contract is 327 days.

[38] GAO's General Counsel made a determination about whether USAID consistently applied its own criteria while evaluating received proposals, but it did not make a determination about the reasonableness of the criteria. Also, GAO's General Counsel did not review the overall award design or the procurement decision.

With the delays designing and procuring the award, Chemonics began implementation of the GHSC-PSM project in January 2016, 5.5 years after USAID began its initial planning and approximately 3 years after expected implementation.

USAID officials said that they underestimated the time needed to design and award a project of this magnitude. In a memo to the chief acquisition officer/senior procurement executive director within OAA, the contracting officer assigned to support the GHSC-PSM design team expressed concerns about the procurement timeline. Specifically, he noted that the anticipated award date was not based on an analysis of the steps of the procurement system, but instead calculated from the planned end date of the previous awards with allowance for a 6-month overlap.

However, at the time, Agency policy did not have clear guidance on the length of the design phase of an award or require project design teams to develop and work from a schedule until after the project design was completed and procurement activities began.[39] The GHSC-PSM design team worked on the project design for more than 3 years without a plan or schedule to keep things on track. A schedule that laid out key milestones and dates for these design activities could have helped the team manage its time and stay on track to meet its overall goal for completing the entire award design and procurement by early 2013.

Since 2016, Agency policy has required two timeframes for milestone tracking: one for presolicitation design activities (such as project approval and senior management reviews) and one for procurement activities starting with OAA's acceptance of a solicitation package from the technical office.[40] This policy requires contracting officers and technical offices to work together to establish realistic milestone schedules. However, the policy is not specific about how to prepare these milestone schedules. It outlines typical overall lead times for various procurement actions but does not provide estimates or guidance for the time needed to move through each step in the process. Without this guidance, there is a risk that design teams may continue to establish unrealistic schedules, resulting in the untimely granting of awards.

USAID ENSURED DELIVERIES GENERALLY ARRIVED IN THE RIGHT QUANTITIES, BUT MORE OVERSIGHT IS NEEDED TO IMPROVE TIMELINESS AND CONTRACTOR PERFORMANCE

OIG determined that the GHSC-PSM project delivered most line items in the right quantities and that the accuracy of orders was not an issue under the project. To

[39] USAID's 2011 "Project Design Guidance" described the phases of the design process. This document estimated that the concept stage would take between 3-4 weeks and the analytical stage would take between 3-6 months to complete. After the analytical stage, the project could be authorized. However, headquarters operating units were not held to these timelines, as they were given leeway to apply elements that they found to be relevant and helpful.

[40] ADS 300.3.3, "Procurement Action Lead Time (PALT)."

address the poor performance reported at the project's outset, USAID officials took multiple actions to improve timeliness of order deliveries. However, two tools introduced to improve predictability and reliability affected what could be counted as on time, hindering the Agency's ability to determine the extent to which its reported results reflected improvements in performance. USAID also did not monitor use of regional distribution centers to ensure their effective and efficient use. While USAID took steps to plan for the transition between the previous projects and GHSC-PSM, weaknesses in the Agency and implementer's management structures, along with the delayed operation and use of GHSC-PSM's management information system, further hindered USAID's ability to effectively oversee a project of this size and scope.

Items Were Generally Delivered in the Right Quantities, but USAID Did Not Always Ensure That They Were Timely

According to USAID guidance, performance indicators are the basis for observing progress and measuring actual results compared to expected results. They help managers assess the extent to which USAID is progressing toward its objectives.[41] Data collected and used for reporting performance against these indicators should meet data quality standards so that the Agency can rely on it to inform decision making. For example, data should reflect stable and consistent data collection processes and analysis methods over time and clearly and adequately represent the intended result.[42]

At the project outset, the key performance indicator used by GHSC-PSM to measure both accuracy and timeliness of commodities deliveries was On-Time, In-Full (OTIF). OTIF measured the percentage of line items delivered on time (defined by the project delivery window as no more than 14 days before or 7 days after the agreed delivery date[43]) and in the right quantity, as specified by the customer.

In addition to OTIF, Chemonics used two other key indicators to measure the reliability and responsiveness of the supply chain during the period under review:

- *On-Time Delivery:* The percentage of line items delivered on time, within the minimum delivery window, according to the agreed delivery date timeframe. By the fourth quarter of fiscal year 2017, the project started reporting on-time delivery (OTD) in addition to OTIF.[44]

[41] USAID's "Performance Management Plan (PMP) Toolkit," August 2014.

[42] USAID ADS chapter 201.3.5.8.A, "Monitoring Data Quality," effective June 20, 2017.

[43] USAID officials said that they wanted a higher performance target for this project than was used in the previous projects. Therefore, USAID officials said that the acceptable delivery window is tighter with the GHSC-PSM project than it was with the DELIVER and SCMS projects. For the first two quarters of reporting, Chemonics used a delivery window of 30 days before or 5 days after the agreed delivery date. This was changed at USAID's direction in fiscal year 2017, quarter 3.

[44] OTD reflects the number of on-time deliveries as a percentage of expected deliveries, rather than all actual deliveries. Because of this, USAID and Chemonics believed OTD was a more accurate measure of recent performance, whereas OTIF could obscure performance as late orders from previous months were delivered. USAID planned to remove OTIF as an indicator after four quarters of convergence of the two indicators.

- *Cycle Time:* The number of days between when a customer order is submitted and when it is delivered. According to the project's monitoring and evaluation plan, cycle time measures the speed at which a supply chain provides products to the customer. Therefore, longer cycle times generally reflect a less responsive supply chain. Cycle times can be subject to factors that are not readily under USAID's or its implementer's control.

Within the first few quarters of implementation, the GHSC-PSM project's OTIF delivery rates began to decline. In response, USAID took steps to improve project performance. A USAID official said that two new tools introduced to improve reliability and predictability of deliveries—the order promising tool and the early delivery reason code—affected what could be counted as on time, making it possible for reported on-time rates to improve while cycle time did not.

Actions Taken by USAID To Improve Project Performance

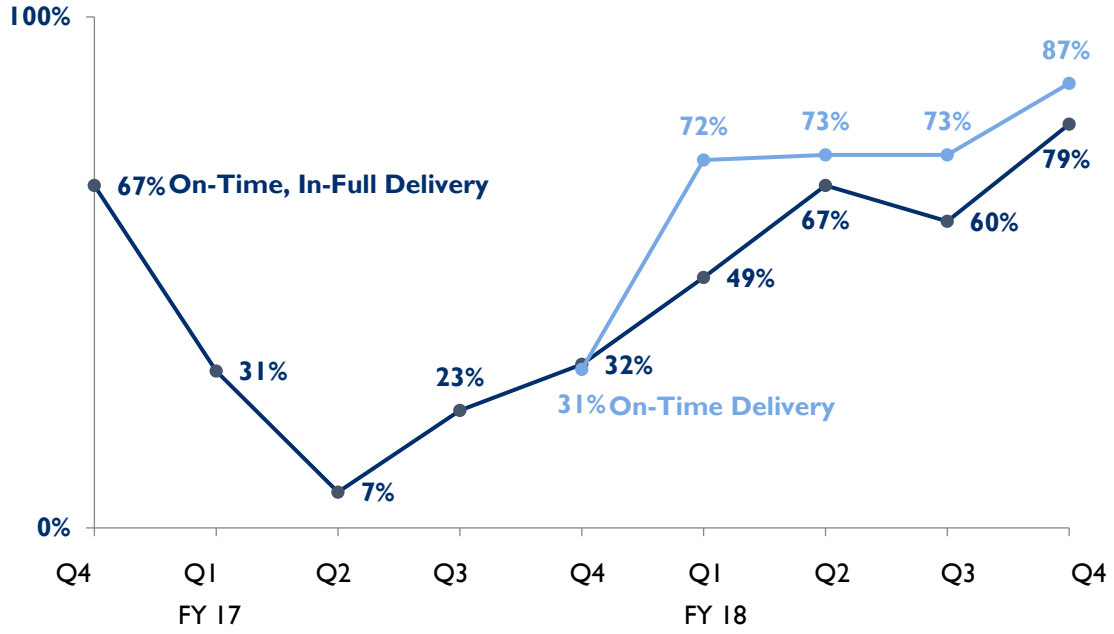
In the second quarter of fiscal year 2017, OTIF performance reached a project low of 7 percent. In response, USAID officials took multiple actions to improve the project's performance. The Agency focused its efforts to improve timeliness of order deliveries because, according to Bureau for Global Health and implementer officials, the poor OTIF rates reported early in the project were primarily related to issues with delivering commodities on time, rather than in full. Our analysis of data from the project's management information system was consistent with USAID's conclusions, as the data showed that most order line items (96.8 percent, or 10,356 of 10,698 line items) were delivered accurately—meaning, in the right quantity—from the beginning of the project through October 2018.

Actions taken by USAID officials to improve Chemonics' performance included:

- Directing Chemonics to develop and implement an action plan to improve performance in April 2017.
- Implementing salary freezes for GHSC-PSM headquarters staff and a moratorium on promotions until performance improved in July 2017.
- Introducing two new tools: the order promising tool in July 2017, and reason codes, including the early delivery reason code in early 2018. According to a USAID Global Health official, these tools were introduced to help improve predictability and reliability for supply chain customers.

After initiating these actions designed to improve project performance, Chemonics began reporting significant improvements in on-time delivery rates (see figure 3). In the fourth quarter of 2018—approximately 1.5 years after the project reported a project low of 7 percent OTIF—Chemonics reported a remarkable turnaround with 79 percent OTIF and 87 percent OTD. This compares to the target of 80 percent for both OTIF and OTD for fiscal year 2018.

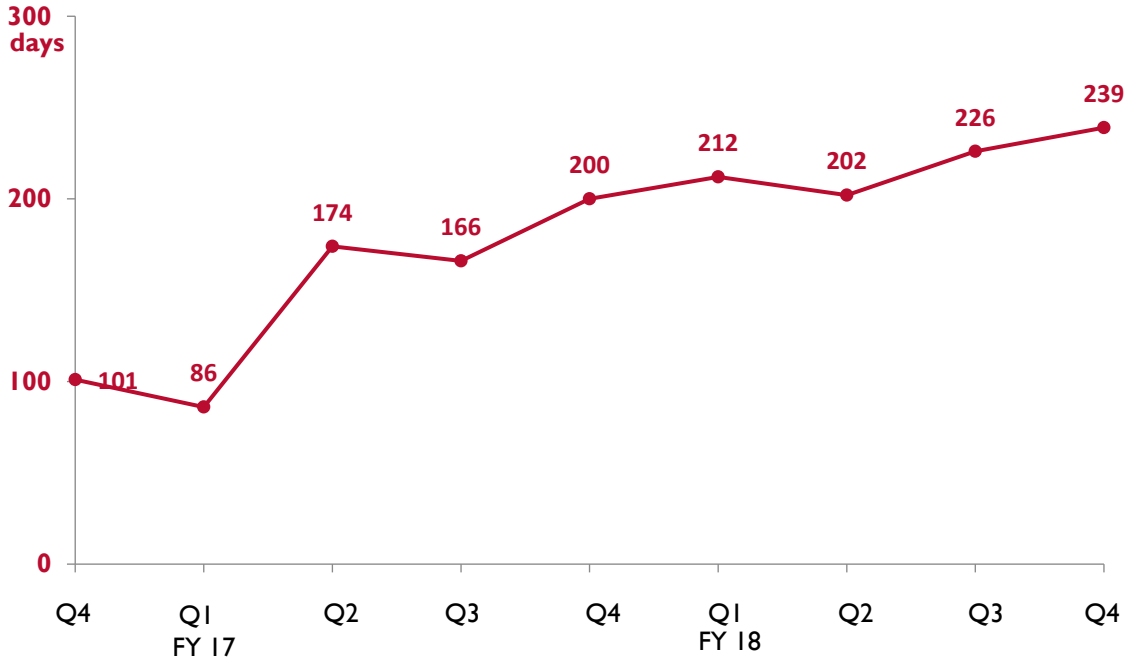
Figure 3. Reported Rates for Delivering Orders On Time and in the Right Quantities



Note: GHSC-PSM began reporting OTD in addition to OTIF in the fourth quarter of fiscal year 2017.
Source: OIG analysis of project documentation and interviews with project staff.

However, these improvements occurred while the number of days in the cycle time increased by 37 percent (from 174 to 239 days) over the same period. In other words, as GHSC-PSM was reporting significant improvements to on-time delivery rates, it was also reporting taking longer for orders to be processed and received (see figure 4).

Figure 4. Reported Average Cycle Times (in Days) for Delivered Orders



Source: OIG analysis of project documentation.

We determined that USAID's introduction of the order promising tool and the early delivery reason code were two changes that affected what could be counted as on time, making it possible for reported on-time rates to improve while cycle time did not.

Order Promising Tool

Lead time is the time it takes from the moment USAID approves a requisition order to the order's delivery. After an order is placed, Chemonics uses the lead time to set an agreed delivery date, which is the point of reference for determining if an order was delivered on time.

USAID officials and Chemonics staff stated that estimated lead times and resulting agreed delivery dates made early in the project were overly ambitious, sometimes not taking into consideration the required tasks to meet commitment dates. To correct this issue, Chemonics adjusted its estimated lead times to allow for additional time to fill customer orders. These new estimated lead times were released as part of the rollout of the order promising tool in July 2017, which was the mechanism used to generate agreed delivery dates for orders. The tool breaks down each step of the process and provides an estimated time for completion, based on the lead times Chemonics estimates for each step. According to Chemonics staff responsible for managing the tool, the estimated lead times calculated by the tool are a suggestion designed to cover the lead times of 80 percent of orders, considering the product and the destination country. That is, estimated lead times seek to identify the time necessary for 80 percent

of orders to be delivered on time. This initial measure is then used as a basis for discussion with project procurement teams. During this review, the procurement teams may determine that additional time needs to be added to these estimated lead times. As a further measure, the tool also suggests a buffer of 10 percent be added for orders delivered directly from a supplier. These changes lengthened Chemonics' estimated lead times, and the process for updating estimated lead times in the order promising tool did not require USAID's approval. Some USAID personnel, representing both Global Health and missions, thought in aiming to correct the overly ambitious lead times at the project's start, the pendulum had swung too far the other way and Chemonics was then using overly conservative lead times.

Officials from the USAID mission in Democratic Republic of the Congo stated that Chemonics was building in too much lead time and that USAID often did not agree with the agreed delivery dates for orders—but there was no choice but to approve the "agreed" delivery date if they wanted to receive the deliveries. In one email exchange, a mission staff member noted that the requested delivery date reflected the period in which the mission wished to receive the orders and that "the 'agreed' delivery date was set by Chemonics based on extremely conservative formulas—without input from the Mission, much less agreement." Some USAID officials in Washington, DC, echoed the concerns voiced by USAID mission staff. Results of our survey sent to USAID field activity managers show that 36 percent of respondents felt that lead times were overly conservative.[45]

Our analysis of the April 12, 2019, requisition order history report, which covered 13,901 delivered order line items, determined that Chemonics did not agree to deliver an item by the mission's requested delivery date for more than half (53.3 percent) of order line items. For approximately 25 percent of order line items, the agreed delivery date fell 60 days or more outside of USAID's requested date (see table 5).

Table 5. Instances of Order Line Items When the Agreed Delivery Date Fell After USAID's Requested Delivery Date

Based on 13,901 Total GHSC-PSM Shipments Delivered as of April 12, 2019

	Number	Percentage
By 30 days or greater	4,984	35.9
By 60 days or greater	3,401	24.5
By 90 days or greater	2,336	16.8

Source: OIG analysis of project documentation.

[45] Results of our survey sent to USAID staff show that 5 percent of the respondents felt the lead times were ambitious, 11 percent accurate, 36 percent overly conservative, and 48 percent had no opinion.

Although we did not evaluate the reasonableness of USAID's requested delivery dates in this audit, this reflects a gap between USAID's expectations and the project's promised delivery dates for commodities.

Early Delivery Reason Code

In October 2017, Chemonics received approval from USAID to use reason codes in the project's management information system to justify changes in the anticipated timing of a delivery. The delivery dates may be changed for delays categorized as acceptable, meaning they were caused by certain unforeseen issues that were beyond the project's manageable control. Delays that are foreseeable or within the project's manageable control are categorized as unacceptable and not considered valid reasons to change the agreed delivery date. One reason code—called USAID Authorized Early Delivery (AD012)—allowed Chemonics to update the agreed delivery dates to allow for early deliveries (i.e., more than 14 days before the agreed delivery date). Early deliveries can occur for a number of reasons; for example, suppliers may be able to provide goods significantly earlier than the expected or confirmed date, or there may be a shorter-than-expected transit time.

As Chemonics began using longer lead time standards, it also started to deliver a number of orders before the agreed delivery date. Chemonics began using the early delivery reason code in November 2017. From that point until January 30, 2019, the early delivery reason code was applied to 26 percent of all order line items with an agreed delivery date. In most cases when the code was used (94 percent), the order was recorded as having been delivered on time.[46] This is significant because application of this reason code allows Chemonics to set an agreed delivery date that is later than what is possible and perform at a level that seems to exceed USAID expectations by delivering earlier than the agreed date. It does not require Chemonics to set ambitious agreed delivery dates that may better meet customer expectations.

A USAID official said that the order promising tool and the early delivery reason code were introduced to help improve predictability and reliability for USAID. However, the deployment of these tools at the beginning of the project would have allowed for the consistent calculation of reported results throughout project implementation. Yet, Chemonics did not include the use of these tools in its proposal, and although the initial definition of the OTIF indicator made reference to reason codes, they were not used at the start of the project. The use of longer lead times to set agreed delivery dates, coupled with the frequent use of the early delivery reason code to adjust these dates, made it easier to achieve the performance targets for OTIF and OTD. Officials at USAID headquarters approved the use of these tools but lacked involvement in their application or oversight. For example, USAID Global Health officials did not approve the estimated lead times to be used in the order promising tool or monitor the frequency

[46] Our analysis of data from the project's management information system and GHSC-PSM reports to USAID shows that from the first use of the early delivery reason code on November 30, 2017, until January 30, 2019, Chemonics used this code on 1,788 distinct line items. Of these, 1,774 line items had a record of either being delivered on-time or not. In 1,662 of the 1,774 instances that used the code (94 percent), the order was recorded as having been delivered on time.

of use of the early delivery reason code. Because these changes to the implementer's internal processes were made concurrently with other mitigating measures designed to improve performance, the Agency cannot determine the extent to which its reported results reflect actual improvements in performance. The use of both tools indicates the need for greater oversight by USAID Global Health officials to ensure they are used as intended and that performance is accurately calculated and reported.

USAID Did Not Monitor the Use of Regional Distribution Centers to Ensure Their Effective and Efficient Performance

Chemonics explained in its proposal that the rationale behind pre-positioning commodities in regional distribution centers was to decrease transit time, shorten order fulfillment time, and reduce cost. Early in the project, Chemonics developed an optimization model that was used to establish a network of regional distribution centers recommended to be used for the project.[47] According to the design scenario presented by Chemonics, using the recommended network, regional distribution centers would be used to fulfill 68 percent of orders and the remaining 32 percent would be filled directly from suppliers. USAID approved the use of this network in September 2016, and Chemonics established regional distribution centers for GHSC-PSM in Geel, Belgium; Centurion, South Africa; and Dubai, United Arab Emirates.

Because GHSC-PSM staff did not track the amount of orders filled by the regional distribution center network, the project and USAID did not know how much the centers were being used and whether their use aligned with the proposed optimization model for the centers. According to a GHSC-PSM staff member who helped develop the model, deviation from the model is to be expected. Our analysis of Chemonics' reported delivery history showed that regional distribution centers were not used as proposed and only 10 percent of order line items were fulfilled from the centers, with the rest being fulfilled from suppliers.[48] We did not review each case to determine why the choice was made to fulfill an order directly from the supplier. According to Chemonics staff, common causes for fulfilling an order directly from a supplier are commodity type (not all commodities are eligible to pass through a regional distribution center), poor forecasting when stocking the center, or undesirable product in the warehouse (e.g., too low of a remaining shelf life). In addition, according to a USAID official, inventory levels in the centers were not always known early in the project due to a technical issue with how data was transferred between the project's management information system and regional distribution centers. Notes from a meeting of a working group of USAID and GHSC-PSM staff looking at logistical issues within the project stated that as of June 2017, Chemonics was working on the processes and technical issues necessary for its management information system to reflect accurate

[47] According to Chemonics' document, "PSM Supply Chain Optimization Framework: Optimizing Supply Chains for the Future," network optimization uses data to find the optimal network design of the supply chain (e.g., location of warehouses, warehouse service area, role of warehouses) to meet the project's desired performance and most effectively use resources.

[48] Based on data from OIG's analysis of project documentation as of October 19, 2018.

inventory in regional distribution centers. When inventory levels could not be confirmed, orders were fulfilled from the suppliers.

Without monitoring regional distribution center use, there was no way for the Agency or its implementer to determine if the network was working as the model suggested, and USAID could not use data to make any necessary adjustments to improve the effectiveness and efficiency of the centers. This lack of monitoring could lead to suboptimal use of the regional distribution centers and increased costs.

Further, neither GHSC-PSM nor the regional distribution centers separately tracked on-time deliveries originating from the centers. These deliveries were included in the overall OTIF and OTD rates but were not reported on separately. Our analysis of Chemonics' reported delivery history as of October 19, 2018, showed that only about half (51 percent) of GHSC-PSM's deliveries from regional distribution centers were reported to be on time. This compares to an average on-time delivery rate of 54 percent for order line items that were shipped directly from suppliers during the same period. As the project's delivery rates began to increase after reaching its low point, Chemonics acknowledged in a regional distribution center strategy document that usage of the regional distribution center network had not been a key contributor to the recent improvement in OTD rates. These rates were increasing as the centers were being used less frequently to fulfill orders. GHSC-PSM staff said that possible causes for untimely delivery from regional distribution centers could be issues with gathering the necessary paperwork for the product, product registration in the country, or waiver requirements.

Even with the low utilization of regional distribution centers and the poor on-time delivery rate from these centers, the volume and value of goods stored in the centers trended upward during the 8-month period of February through September 2018. Commodities also were remaining in stock for an extended time during this period. In February 2018, three items, with a total value of approximately $2,000, had been in inventory in the regional distribution centers in Belgium and Dubai for more than 6 months. By September 2018, more than 1,400 items, with a total value of approximately $3.5 million, had been in inventory for more than 6 months in these same centers.[49]

Aging commodities are problematic because remaining shelf life decreases each day. A common import requirement is that products have 75 percent remaining shelf life at the time of entry. On average, 22 percent of pre-positioned inventory in the three GHSC-PSM regional distribution centers fell below this standard during the period of February through September 2018.[50] GHSC-PSM staff preferred to track the remaining shelf life

[49] This analysis was conducted only on the inventory in the regional distribution centers in Belgium and Dubai. The inventory reports from the regional distribution center in South Africa did not contain the information necessary to be included in this analysis. During the period analyzed, at its height, in July 2018, more than 2,100 items, with a total value of approximately $4.5 million, had been in inventory for more than 6 months.

[50] Inventory reports from September 23, 2018 (for regional distribution centers in Belgium and Dubai) and from September 25, 2018 (for the regional distribution center in South Africa) showed that 28 percent of the total pre-positioned inventory (1,977 out of 7,022 line items), totaling nearly $8.1 million (19.6

of each product by the time (in months or years) before a product expires but did not track the percentage of its remaining shelf life. Low shelf life increases the risk of waste due to possible product expiration and countries' refusal to accept the products.

A USAID official said that the Agency takes a conservative approach to stocking health commodities in the project's regional distribution centers to help minimize the risk of stockouts in country, which can put vulnerable populations relying on lifesaving health commodities at undue risk by interrupting treatment regimens. In addition, USAID contracting officer's representatives (CORs) for GHSC-PSM review regional distribution center inventory levels, including reviews of the commodities' values and products allocated to orders. However, these reviews are not standard across task orders and did not always include a review of all products' remaining shelf lives. Conducting a review of the project's overall regional distribution center performance would provide USAID with more information about whether the centers are achieving their purpose and provide insight into how the Agency is balancing its need to operate an efficient and effective supply chain while minimizing risks.

USAID Took Steps To Plan for the Transition Between Projects, But Operational Challenges Hindered Project Oversight

While USAID took steps to plan for the transition between projects by adopting mitigating measures, weaknesses in the Agency and implementer's management structures, and the delayed operation and use of GHSC-PSM's management information system, hindered USAID's ability to effectively oversee a project of this size and scope.

Mitigating Measures During the Transition Between Projects

The GHSC-PSM contract requires that the contractor "must ensure a smooth transition from the existing SCMS and USAID/DELIVER Programs to this new IDIQ in order to ensure uninterrupted supply of commodities." During the transition period, USAID took mitigating measures to protect against potential interruptions to the supply and delivery of commodities.[51] These included the following:

- Directing the predecessor projects to stockpile commodities in warehouses and developing a detailed plan for the transfer of remaining commodities to the GHSC-PSM project.
- Extending incumbents' contracts to ensure a period of overlap for about 6 months.
- Putting in place a plan for how GHSC-PSM would procure and deliver specific orders during the transition period.

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percent of the $41.4 million in total value of pre-positioned inventory) had a remaining shelf life of under 75 percent.

[51] Chemonics reported that the transition began with a start-up convention on January 7-8, 2016. The first day of implementation was January 11, 2016. SCMS and DELIVER field offices were set to close on June 26, 2016. The DELIVER procurement office was set to close on September 26, 2016, with the program ending in February 2017.

USAID officials also provided additional guidance to project staff to assist in the transition, as issues arose. These steps were designed to ensure that there was a smooth transition in responsibility between the predecessor projects and GHSC-PSM. They were not designed to solve any potential challenges Chemonics experienced as it began implementing GHSC-PSM.

USAID Management Structure

Federal standards for internal control require management to establish an organizational structure, assign responsibility, and delegate authority to achieve the organization's objectives and address related risks.[52] USAID's management structure for GHSC-PSM has hindered its ability to provide oversight.

At the start of the project, the Bureau for Global Health lacked a single, overarching coordinating entity that linked the various project elements, a structure which was proposed in a 2011 assessment that helped to inform the design of GHSC-PSM. The proposed structure would include members with expertise in each key stage of the supply chain to oversee strategy and manage the work to retain ownership and accountability for the performance of the supply chain. According to the assessment, if the structure were not implemented, USAID officials would be forced into a reactive model of management in which the Agency would lack control, have limited ability to make improvements, and be consumed with addressing ad hoc issues as they arose.

In a May 2018 testimony before the House of Representatives' Committee on Foreign Affairs, a senior USAID Global Health official said that the lack of this structure hindered USAID's ability to communicate in a single voice and fragmented its initial response to project issues.[53] Fragmentation delayed initial identification of issues cutting across the supply chain because there was an inward focus on each individual task order. For example, timelines prepared by Global Health officials showed that at the project outset, issues were identified and communicated by USAID's CORs to the relevant task order team within Chemonics at routine meetings. After a few months, USAID CORs also began to notify Chemonics' GHSC-PSM project director of identified issues. However, it was not until just over 1 year of implementation, in February 2017, that USAID took a more coordinated approach to address issues that cut across the task orders and raised performance concerns with GHSC-PSM leadership, no longer only relying on issues being resolved within task order teams. In March 2017, CORs assigned to the project discussed with OAA the possibility of sending a letter to Chemonics leadership outlining crosscutting concerns. USAID sent this letter in April 2017 and began taking stronger and more consolidated actions aimed at improving the performance of the project. For example, in July 2017, the Agency instituted a moratorium on salary increases and on promotions for GHSC-PSM headquarters staff until performance improved.

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[52] "Standards for Internal Control in the Federal Government" (GAO-14-704G), September 2014, Principle 3 - Establish Structure, Responsibility, and Authority.

[53] "Global Health Supply Chain Management: Lessons Learned and Ways Forward," Hearing Before the Subcommittee on Africa, Global Health, Global Human Rights, and International Organizations, of the House of Representatives Committee on Foreign Affairs, May 17, 2018.

By July 2017, the Bureau for Global Health had updated its management structure to better address coordination issues. This included standing up the supply chain leadership team composed of the division chiefs for each office participating in the GHSC-PSM project. At this level, the division chiefs provided support in addressing issues of strategy, policy, coordination, and communication across the Bureau for Global Health and the Agency more broadly.[54] The four CORs assigned to the four GHSC-PSM task orders continued to provide technical direction and monitor project performance. In addition, a number of cross-cutting functional groups were developed to provide technical support on issues that do not rise to the level of the CORs or the supply chain leadership team. With this new structure, by June 2018, there was an increased number of staff involved in the management of the project.

Although USAID has adjusted its organizational structure to enhance project coordination and oversight, fragmentation still existed, with some staff reporting and being accountable to their respective offices instead of a supply chain coordinating entity. In early 2018, Bureau for Global Health leadership proposed that USAID create a separate central supply chain unit to provide coordination support for the different supply chain teams. USAID was still reviewing this proposal at the time that we completed audit fieldwork.

In addition, USAID did not have a risk mitigation officer for the GHSC-PSM project to help identify risks within the project, develop risk mitigation plans, and provide necessary training. USAID identified this as an issue in 2017, and 19 months later, the Agency hired a short-term consultant to fill this role. This short-term consultancy ended in August 2019, and the consultant developed a risk model for USAID's ongoing supply chain risk management. The consultant recommended that Global Health establish a risk management team with a team leader who has decision-making authority. As of August 2019, USAID planned to work with consultants to implement this recommended model. As of November 2019, USAID was still reviewing the recommendations and had not yet taken any action.

Multiple USAID officials expressed during audit interviews that the GHSC-PSM project has been difficult to manage, requiring an unexpected level of sustained and extensive oversight from CORs and other members of the task order teams. One COR said that management of the task orders under the contract has been overwhelming because delegation of authority cannot be made beyond the single COR for each task order. The COR noted that with the pressure from the pace of the project and the volume of emails, approvals, meetings, and more, there was a risk of lagged decision making or deciding on an action without performing proper analysis. Therefore, to ensure the timeliness of actions, the COR would routinely ask other technical experts for a recommended action before making the formal decision.

[54] Since this level of leadership was acting above the project level, it did not supersede the authority of the contracting officer's representatives.

Management Information System

One factor that hindered early implementation of the project was that Chemonics did not have its management information system in place at the project's start. This meant that USAID could not use the system to approve orders or monitor project performance.

In its proposal, Chemonics stated that the new management information system would be "ready to accept orders on Day 1." Project implementation began in January 2016, but the system was not ready as stated in the proposal. Chemonics reported that the process for defining the functional requirements of the system did not begin until February 2016, and it was completed in May 2016. Chemonics began to build the system and released versions of it with increased functionality throughout 2016 and into early 2018. The lack of a fully functional system led Chemonics staff to maintain Microsoft Excel-based trackers for order management and monitoring. In August 2017—more than a year and a half into implementation—Chemonics reported that all new orders were generated in the project's management information system.

However, in the five countries we visited (Democratic Republic of Congo, Haiti, Rwanda, Ukraine, and Vietnam), USAID did not require that its activity managers use the management information system. Some activity managers did not obtain access to the system and had not received training to be able to approve orders. Therefore, some USAID missions were using a proxy approval process rather than the management information system to approve orders for commodities, leading to lags in approval times and discrepancies in agreed delivery dates approved by USAID activity managers and recorded in the system.

The proxy approval process being used by some USAID activity managers required orders to be "manually signed by USAID, scanned, sent to 2+ people, and then approved by someone at [Chemonics] on USAID's behalf."[55] In contrast, use of the management information system streamlines and automates the process by providing immediate approval of the order with an agreed delivery date, without any lag time for transferring the order to GHSC-PSM staff and receiving approval in the system. Of the five countries visited, two were routinely approving orders through the system. In one country, at the time of our visit in May 2018, one order had been approved in the management information system, but all others had been approved by proxy approval.

Using proxy approval for orders makes the management of the project inefficient because it delays the setting of the agreed delivery date for the order, which can create discrepancies between the expectations of the USAID activity manager and the project's recorded agreed delivery date in the system. A Chemonics staff member stated that when using the proxy approval process, the delivery window clock normally starts on the same day or the day after USAID provides its signature of approval. However, we found that this did not always occur. For example, in one instance, a USAID activity manager submitted a signed requisition order on February 9, 2018 for proxy approval in

[55] Chemonics staff member supporting the GHSC-PSM project, email to audit team member, November 29, 2018.

the management information system with an agreed delivery date of June 1, 2018. Chemonics personnel provided this proxy approval 12 days later, with this delay pushing the agreed delivery date out until June 13, 2018, in the system, without securing agreement from the USAID activity manager.

In three of the five countries we visited (Democratic Republic of Congo, Haiti, and Ukraine), activity managers were using the proxy approval process rather than approving orders in the project's management information system. Our finding raises questions about the extent to which other missions are using proxy approvals of orders and the accuracy of the agreed delivery dates for orders approved by USAID activity managers using this process.

In addition, GHSC-PSM's management information system includes a reporting module that allows users to view predefined reports related to budgets, monitoring and evaluation, operations, order tracking, and sourcing and contracts. However, in the five countries we reviewed, none of the USAID activity managers charged with monitoring project performance were using the system in this capacity. Two activity managers noted they had not yet been trained on the system, and a third said he had not been trained on the reporting function. A fourth said he did not understand how to use the system for these functions.

These issues raise questions about whether USAID has sufficient training and controls in place to help ensure that GHSC-PSM's management information system is being used as intended in other countries that are part of the project, which we did not review in this audit.

Chemonics' Project Management Structure

Another factor that hindered USAID's ability to oversee the GHSC-PSM project was project restructuring by Chemonics, which created confusion and operational delays.

Chemonics planned to have senior staff in place upon project startup, allowing for a smooth transition between the old and new projects. Chemonics' final proposal listed and provided biographies of 19 people planned to fill positions among the core leadership team, which consisted of 10 managers, 3 procurement and logistics key personnel, 3 systems strengthening key personnel, and 3 finance key personnel. However, the award protests delayed implementation of the project, and 5 of these 19 planned leaders left the project before it began. The project began with these vacancies, which accounted for 26 percent of its core management team.[56] High levels of turnover persisted within the project. Our analysis of key leadership positions within the project showed that as of January 2019, only 3 of 19 staff members identified in the proposal were still in place.

To refine and improve processes within the project, Chemonics restructured the GHSC-PSM structure in September 2016, about 8 months after the start of project

[56] Vacated positions were: Task Order 2 Director, Systems Strengthening Director, Task Order 1 Procurement and Logistics Manager, Task Order 3 Procurement and Logistics Manager, and Task Order 3 Finance Manager.

implementation. It restructured again about 5 months later in February 2017. Additional restructuring in the systems strengthening team occurred later in 2017.

USAID officials noted in an April 2017 memo to Chemonics leadership that outlined performance challenges that Chemonics' attempts to reorganize created ineffective communication and disruption without significant improvement in performance, and that Chemonics lacked a clear operating model. USAID and GHSC-PSM field staff echoed this, stating that the turnover and restructuring created confusion and delays in operations which contributed to order delays. According to these staff, the turnover and restructuring created uncertainty about roles and responsibilities and ineffective communication between teams, resulting in a lack of ownership over issues raised by USAID and lost orders. All these issues contributed to challenges procuring and delivering new orders, which were reflected in the poor performance rates reported early in the project.

CONCLUSION

USAID's GHSC-PSM project provides life-saving medications and other vital health commodities to vulnerable people around the world. To achieve its goals, this project must consistently deliver the right items, in the right quantity, and within the expected timeframes. USAID must provide effective oversight to ensure the project's successful performance, starting with having the necessary policy and guidance in place to properly design and award a project of this magnitude and scope. However, USAID ultimately awarded an untimely contract with limited documentation of how it planned to address risks associated with the selected project design. When the contractor struggled to perform as expected, USAID took action but was left with limited options for dealing with the contractor's performance issues given its decision to award the project to a single implementer. Additional steps are needed to strengthen oversight of the project going forward, including ensuring an effective management structure and necessary policies, procedures, and guidance are in place to improve the timeliness of deliveries and contractor performance. As USAID prepares to design its next award to continue this supply chain work, it is imperative that the Agency improve policy and guidance to avoid issues with effectively designing, procuring, and managing that award and better ensure good use of future global health investments. Based on lessons learned from the GHSC-PSM experience, USAID can also strengthen its award processes by improving guidance on contracting officers' roles, risk and time management, and evaluation of proposals.

RECOMMENDATIONS

To strengthen its award design and procurement processes, we recommend that USAID's Office of Acquisition and Assistance:

1. Revise policy to clarify the role and the extent of involvement of the contracting officer on a project design team to ensure compliance with the Federal Acquisition Regulation.
2. Develop and implement guidance outlining the minimum supporting documentation required for key decisions influencing the design of an award.
3. Develop and implement guidance to help prepare risk assessments, mitigation plans, and plans during project design that take into account the consequences of failing to achieve goals in accordance with the Federal Acquisition Regulation.
4. Develop and implement guidance to help address heightened risks posed by the use of single-source awards, specifically the increased potential for award protests, underperformance by the sole implementer, and lack of competition, in pre-award risk assessments.
5. Develop and implement guidance to help evaluate proposed management information systems by verifying system capabilities, such as by requesting case studies.
6. Conduct a review of the verification process used to determine the completeness and accuracy of the Global Health Supply Chain – Procurement and Supply Management technical evaluation committee's consideration of information about bidders' past performance to identify gaps that allowed errors to occur, and implement a plan to correct those gaps.
7. Develop and implement guidance to help operating units develop timelines for preprocurement and procurement activities so that operating units understand the time requirements for steps in procurement process.

To improve the Agency's management of Global Health Supply Chain – Procurement and Supply Management and follow-on awards, we recommend that the Bureau for Global Health:

8. Develop and implement a plan to assess the indicators used to measure the reliability and responsiveness of the supply chain for accurate representation of delivery dates, including reviewing the use of the early delivery reason code, the order promising tool, and any other tool that affects the measurement of this indicator.
9. Work with Chemonics to conduct a review to determine the effectiveness and efficiency of regional distribution centers and implement a plan of action to correct any inefficiencies identified.
10. Train USAID activity managers to use the project's management information system for requisition order approval and monitoring responsibilities.
11. Establish a timeframe for addressing the recommendation proposed by Bureau for Global Health leadership in 2018 on creation of a central supply chain unit and set target dates for the implementation of accepted changes.

12. Establish a timeframe for addressing the recommendation proposed by management consultants in 2019 on risk mitigation issues and set target dates for the implementation of accepted changes.
13. Require USAID activity managers to use the project's management information system for requisition order approval and discontinue the use of proxy approvals.
14. Work with Chemonics to complete an assessment of the organizational structure and staffing needs to manage the Global Health Supply Chain – Procurement and Supply Management project.

OIG RESPONSE TO AGENCY COMMENTS

We provided our draft report to USAID on October 28, 2020. We received the Agency's response on December 28, 2020, which is included as appendix B of this report. On January 29, 2021, the Agency provided a revised response, which is included as appendix C.

The report included 14 recommendations, and we acknowledge management decisions on all 14, based on the January 29, 2021, response. We consider six of the recommendations closed (recommendations 8, 10, 11, 12, 13, and 14). However, we disagree with the Agency's management decisions on recommendations 1, 2, 3, 4, 5, 6, 7, and 9. For these recommendations, we believe that the actions described in the Agency's response do not fully address the recommendations and will require the Agency to submit a revised management decision. We consider them open and unresolved, as discussed below.

For recommendation 1, USAID cited updates made to the ADS since it awarded the GHSC-PSM contract that address the role of the contracting officer during the design phase and align with the FAR requirement that the acquisition planner must coordinate with and secure the concurrence of the contracting officer in all acquisition planning. However, the updates to the ADS did not address how to include and coordinate with the contracting officer during the design phase, how the contracting officer is to raise and address any concerns, and how to document contracting officer concurrence, particularly in the event of disagreement or when the design team does not accept the advice or guidance of the contracting officer. To resolve this recommendation, please provide a revised management decision that details actions that would more fully clarify the role and extent of involvement of the contracting officer on a project design team to address the concerns raised in the audit report.

For recommendation 2, USAID pointed to several sections of ADS 201 and 300 that outline its design process and detailed several of the key documents that should be prepared during that process. However, these actions do not address the concerns raised in the audit report about unsupported assertions upon which design decisions are made or the FAR requirement that documentation maintained in the contract file provide a complete background as a basis for informed decisions at each step of the acquisition process. The key documents cited in the Agency's response are often used

to document decisions made during the design phase, but in and of themselves, the cited documents are not sufficient to provide support for how decisions were made. Examples of the records normally contained in contract files, if applicable, include justifications and approvals, and determinations and findings. USAID's response did not provide any guidance outlining minimum standards for what documentation supporting design decisions must be maintained in project files. It also does not provide any guidance on the preparation of this documentation. To resolve this recommendation, please provide a revised management decision that outlines guidance or minimum standards for how design teams should maintain documentation that supports key assertions or other decisions upon which design decisions are made.

For recommendation 3, USAID outlined the evolution of its policy on risk in recent years. The technical note and the other documents the Agency referenced in its response provide high level guidance for risk management, but they do not provide practical guidance at the activity level to help teams in the design phase to meet the FAR requirements of assessing technical, cost, and schedule risk, and the consequences of failing to meet project goals. To resolve this recommendation, please provide a revised management decision that documents USAID's plan to develop guidance that can be used to advise members of a design team working to prepare risk assessments that specifically address the FAR requirements of technical, cost, and schedule risk, and the consequences of failing to meet project goals.

For recommendation 4, USAID restated Federal regulations and its long-standing policy that express a preference, with certain allowable exceptions, for multiple award IDIQs over single source. The Agency also highlighted guidance developed in 2014 designed to help document the rationale for using a single-source IDIQ and other high-level policy on risk and stated that the next iteration of the Global Health Supply Chain project will not use this mechanism. However, our recommendation was not specific to the Global Health Supply Chain project, and USAID noted that the Agency continued to issue a limited number of single-source IDIQs over the past several fiscal years. Since there are circumstances in which single-source awards may be appropriate, guidance addressing the increased potential for award protests, underperformance by the sole implementer, and lack of competition in pre-award risk assessments that is currently lacking, would be beneficial. To resolve this recommendation, please provide a revised management decision that documents USAID's plan to develop guidance to help design team members assess the heightened risks posed by the use of single-source awards and develop mitigation plans during the design phase.

For recommendation 5, USAID stated that the expanded role and involvement of USAID's CIO in procurements is the best way to evaluate the capabilities of a proposed management information system. The response described updates to ADS policy and guidance the Agency has made since the award of the GHSC-PSM contract to better integrate CIO review and approval of information technology within USAID projects. The policies and guidance include requirements that Agency-procured information technology systems either procured internally or under an acquisition must undergo a level of review and scrutiny by the CIO. The CIO review includes ensuring that no existing solutions are available, that USAID secures appropriate data rights, and that

except for certain circumstances, open-source software be developed. While these are positive actions, they do not address the verification of system capabilities to ensure that the proposed management information system will work as outlined in the proposal and meet USAID's needs in the project. To resolve this recommendation, please provide a revised management decision that documents USAID's plans to develop guidance on how technical evaluation committees or the CIO will verify the capabilities of proposed management information systems during the evaluation of proposals.

For recommendation 6, USAID summarized its policies, some longstanding and others put into place following the award date, to help determine the completeness and accuracy of information about bidders' past performance. These policies describe the processes for announcing in the solicitation how past performance will be evaluated, how past performance information is collected and reviewed, and how the technical evaluation committee documents its assessment of past performance information. The policies were largely in place at the time the GHSC-PSM contract was awarded, and USAID's response does not describe any actions taken that would examine how the two issues raised in the report (the omission of submitted past performance information and inaccurate documentation of the technical evaluation committee's assessment of past performance information) occurred or prevent a future occurrence. To resolve this recommendation, please provide a revised management decision that documents a plan to review the actions taken by the technical evaluation committee to determine how these errors occurred and to put in place any corrective measures deemed necessary after this review.

For recommendation 7, USAID stated that each procurement is unique, and therefore, timelines for each procurement will be unique. USAID referenced its Acquisition and Assistance strategy, which stressed a focus on improving the timeliness of the procurement process but stated that timelines developed at this stage are estimates. To illustrate this, USAID highlighted long-standing policy that outlined the procurement process and described the recently adopted Senior Obligation Alignment Review (SOAR) process for review of procurements of over $50 million. However, with an exception for the timeline for the SOAR process, these policies do not provide guidance to help design teams and contracting officers understand the estimated time needed for each step in the preprocurement and procurement phases of an award to establish realistic timelines. To resolve this recommendation, please provide a revised management decision that documents USAID's plan to develop guidance that provides estimated timeframes for the steps of the preprocurement and procurement phases of an award that will allow contracting officers and design teams to establish more realistic timeframes for issuing awards.

For recommendation 9, USAID outlined actions to monitor the operational efficiency of each regional distribution center through, for example, greater participation by USAID and Chemonics staff in oversight visits to the centers and requiring an additional review of individual center performance by a technical working group. However, these efforts fall short of addressing several concerns about the overall regional distribution center network that were raised in the audit report findings, such as expected versus actual use of the regional distribution centers, the lack of tracking the centers' use, and regional

distribution center stock trends. To resolve this recommendation, please provide a revised management decision documenting how USAID intends to review the effectiveness and efficiency of the overall regional distribution center network and implement a plan of action to correct any identified inefficiencies.

USAID also included comments in its response to the draft report disagreeing with aspects of three draft report findings. Specifically, USAID asserted that we based key findings on incomplete data and information regarding (1) evaluation of past performance in the contractor selection process, (2) the need for additional oversight to improve timeliness and contractor performance, and (3) procurement decisions using the regional distribution center network or suppliers. We considered USAID's comments and made technical changes as appropriate. Throughout the course of the audit, we worked closely with members of OAA and the Bureau for Global Health and fully briefed them on our findings and supporting evidence. We stand by our work and analysis that is the basis for this report.

In response to the audit findings related to the errors in the technical evaluation committee's assessment of Chemonics' past performance in the proposal evaluation process, USAID stated that it rejected the implication that minor errors might have undermined the validity or integrity of the selection process. We disagree that we made this implication in the report, nor do we consider the errors identified—the omission of a project put forth for consideration with negative feedback, and the inaccurate attribution of past performance information from a more highly rated project—to be minor. Regardless of the weight placed on any evaluation metric, we believe that the documentation for the proposal evaluation process should reflect that all information was accurately reviewed and considered. Identifying how these errors occurred and putting in place a plan to correct them may prevent reoccurrence of such errors.

In response to the audit finding that more oversight is needed to improve timeliness and contractor performance, USAID highlighted the efforts of its staff to gain improvements in reported OTIF and OTD rates using more recent performance data that postdated our period under review and questioned the reporting of only one mission's concern about the adoption of longer lead times. The report did not take issue with the diligence or commitment of USAID staff to work with Chemonics to improve performance, and several actions taken by USAID to do so are described in the report. However, the new data showing improved timeliness and contractor performance over time does not change our assessment of Chemonics' performance during the timeframe under audit. Specifically, our analysis points out that Chemonics' improved OTIF and OTD delivery performance coincides with increased commodity delivery times and the establishment of an early delivery reason code. The longer delivery times were largely made possible by the adoption of the order promising tool, and we maintain that an accurate depiction of Chemonics' performance improvement must also recognize the increased delivery times. In our final report, we revised the statement that no one in USAID approved the updated lead times to clarify that the process for updating the lead times in the order promising tool did not require USAID's approval (page 30). Regarding USAID's comment that we highlighted only one mission's concern about the adoption of longer lead times, we included this information to illustrate the concerns expressed by this

mission during our field visit; however, as described in the report on page 30, concerns about the length of lead times were also raised by Global Health staff in USAID headquarters and more than one-third of activity managers in missions participating in the project throughout the world.

In response to the audit finding related to the use of regional distribution centers or suppliers to fulfill procurement orders, USAID questioned if we expected USAID or Chemonics to make procurement decisions to fulfill a predetermined model on the expected use of the regional distribution center network. We disagree this was implied in the report. In our finding, we recognize and highlight reasons for which it may be necessary to procure commodities directly from a supplier rather than through a regional distribution center. However, we also highlight the disparity between the planned and expected use of the centers under the optimization model from which Chemonics established the network. We stand by our analysis supporting our statement that USAID did not monitor the use of regional distribution centers to ensure their effective and efficient performance.

APPENDIX A. SCOPE AND METHODOLOGY

We conducted our work from November 2017 through October 2020, 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 based on our audit objectives. We believe that the evidence obtained provides a reasonable basis for our findings and conclusions based on our audit objectives.

We conducted this audit at the request of the Senate Foreign Relations committee to (1) assess how USAID's GHSC-PSM contract was designed and awarded; and (2) determine whether USAID managed the GHSC-PSM contract to provide for accurate and timely delivery of commodities to selected host countries.

To address the first objective, we obtained an understanding of the FAR and USAID policy and guidance over the project planning, design, and award processes and compared USAID's actions against these regulations and policies for the period covering the start of the design in June 2010 to the start of project implementation in January 2016. We analyzed documents and interviewed USAID officials from OAA and the Bureau for Global Health to obtain an understanding of and assess (1) the process, timeline, and purpose for developing the GHSC-PSM contract; (2) how USAID identified and mitigated the risks associated with the project design; (3) the process for evaluating the bids received and selecting the winning proposal; and (4) the impact of various factors on project award timeframes.

We reviewed key documents supporting the project planning and design, evaluation, award, and protest processes. Design documents included email communications from the contracting officer assigned to support the project design team, the project's concept paper, approval memoranda from the BAAR, the approval memorandum from the OAA director, evaluations used to inform the design of the project, and the acquisition plan. Evaluation documents include the request for proposals, proposals from the two bidders, USAID technical evaluation committee notes and memoranda, and Contract Review Board memoranda. Award documents include the source selection document, the negotiation memoranda, the contract, and the four task orders administered by offices within the Bureau for Global Health. OIG did not include the fifth task order that was issued and administered by USAID/Kenya and is the only task order issued by a mission. Protest-related documents include emails notifying USAID of the bidder's intent to file, USAID-issued stop work orders, continuations, and cancellations, and GAO's protest decision. USAID does not have a written transcript of the decision of the Court of Federal Claims.

We interviewed a GAO official who was involved in reviewing the award protest to obtain an understanding of GAO's responsibilities in conducting its review and in making its determination. We reviewed the curricula vitae of members of the Global Health design team, technical evaluation committee, and contracting officers (both the awarding and those currently overseeing the award) to determine if they demonstrated the knowledge, experience, and qualifications to provide input and make decisions regarding

the award. We also reviewed nondisclosure statements and certifications of no conflict of interest to determine the independence of each member of the technical evaluation committee. Based on this review, we found no evidence that members were not independent.

To address the second objective, we reviewed USAID's management of the project from its start in January 2016 through November 2019. We reviewed project documents and interviewed USAID officials from the Bureau for Global Health and five selected USAID missions (Democratic Republic of Congo, Haiti, Rwanda, Ukraine, and Vietnam), Chemonics staff at GHSC-PSM headquarters and in the field, and project partners, where applicable, to include host government officials, a nongovernmental organization, and warehousing providers both at the regional distribution centers and at the central medical stores in countries, where applicable. We conducted analysis of these items to obtain an understanding of and assess (1) how the project is structured and implemented; (2) the transition from the previous projects to the GHSC-PSM project; (3) how the supply chain works, from in-country forecasting of need to delivery of commodities to the central medical store in the recipient country; (4) historical and current project performance, with a particular focus on the timeliness and accuracy of deliveries; (5) actions taken to identify and address performance issues; (6) whether USAID and Chemonics have put controls in place to address issues; (7) whether any performance issues remained unresolved; and (8) whether USAID was effectively managing the GHSC-PSM contract to allow for timely and accurate deliveries.

We analyzed tools introduced by Chemonics and approved by USAID to help improve the reliability and predictability of the supply chain, namely the order promising tool and the early delivery reason code. In doing so, we analyzed their application, frequency of use, and impact on the timeliness of deliveries. We also compared agreed delivery dates to dates missions requested delivery and analyzed the alignment of these dates. We administered an online survey via Qualtrics to the 58 USAID activity managers identified by the auditors and Chemonics staff as being responsible for the project in the field between September 27 and November 12, 2018, to solicit their opinions and experiences with the GHSC-PSM project's performance, communication between field offices and project headquarters, setting of agreed delivery dates, use of the order promising tool, and use of the management information system. We received 48 responses, for a response rate of 83 percent.

Project documents reviewed include Chemonics' monitoring and evaluation plans, quarterly reports, financial reports, technical direction memoranda from USAID, Chemonics' action plans and progress updates, and notes from meetings with USAID officials and Chemonics staff.

We conducted site visits to 5 out of 61 commodity-recipient countries (Democratic Republic of Congo, Haiti, Rwanda, Ukraine, and Vietnam). These countries were judgmentally selected based on geographic area and the volume and value of commodities procured under the GHSC-PSM project. The countries visited during our survey phase (Democratic Republic of Congo and Rwanda) were selected because they were both among the top 10 countries for which GHSC-PSM procured commodities in

terms of volume and value. In addition, in these two countries, GHSC-PSM procured commodities under each of the four task orders administered by USAID headquarters. For our fieldwork phase, we selected to visit Ukraine, Vietnam, and Haiti to obtain a global perspective and because GHSC-PSM procured the largest volume and value of goods in each geographic region for these countries. As of September 12, 2018, more than $145 million in commodities had been procured for these five countries, representing more than 10 percent of the total value of commodities procured by the GHSC-PSM project. In addition, more than 3,200 line items had been procured for these five countries, representing more than 27 percent of the line items procured by the project. Our findings cannot be used to make inferences about commodities procured by other USAID missions. However, we determined that our method for selecting these missions was appropriate for our audit objectives and that the selection would generate valid, reliable evidence to support our findings and conclusions.

We visited all three regional distribution centers (Belgium, South Africa, and United Arab Emirates) in operation in September 2018 to interview warehousing staff to better understand their operations and to review inventory levels. We conducted three data reliability assessments, as detailed below:

1. We conducted a data reliability assessment of the project's Automated Requisition Tracking Management Information System (ARTMIS) to determine if its data could be sufficiently relied upon for monitoring and reporting on commodity deliveries for orders delivered to the countries visited during audit fieldwork. To conduct our assessment, we interviewed USAID officials and Chemonics staff and reviewed documents detailing the development, approval, and deployment of the system. We obtained an understanding of how Chemonics staff validated the information produced by ARTMIS and interviewed USAID mission officials and Chemonics field staff about their use of the system. We traced and verified procurement and shipment documents for 10 orders we selected based on value, order fulfillment method, and recency of delivery to determine the validity and reliability of data maintained in ARTMIS and performance flow of commodities.

   In selecting 10 orders, we tested a variety of scenarios that occur with procurements in the GHSC-PSM project: (1) delivery from a regional distribution center, (2) delivery from a direct drop (i.e., filled directly from suppliers), and (3) a delivery from a direct drop order through a local procurement. These 10 orders were selected from the five countries selected for site visits. We determined that the data obtained from ARTMIS was sufficiently reliable for monitoring and reporting on orders delivered to these countries. We do not project the results of our analysis beyond these sample items, and we do not conclude on the overall accuracy of the performance flow of commodities for the GHSC-PSM project.
2. We validated the accuracy of the coding in ARTMIS for key performance indicators for on-time delivery and OTIF delivery. Using a sample of 30 orders, we verified the accuracy of key data points recorded in ARTMIS—such as the agreed delivery date and the actual delivery date—by comparing each data point against hard copy documentation. This test was done on the 10 most recent deliveries as of July 11,

2018, to Haiti, Ukraine, and Vietnam, the three countries visited during audit fieldwork.[57] We limited our testing to the most recent deliveries to these countries to validate the most recent information being input into the management information system for these countries. We determined that the coding of key information was sufficiently accurate for reviewing the performance flow of commodities in the selected countries. We do not project the results of our analysis beyond these sample items, and we do not conclude on the overall accuracy of the information maintained in the project's management information system.

3. We assessed the reliability of ARTMIS's financial data. To conduct our assessment, we reviewed all five direct drop deliveries used in our test of the performance flow of commodities described above to verify the accuracy of key data reported in the system against source documentation. These five deliveries were made to Haiti, Ukraine, and Vietnam. We also interviewed USAID officials about the accuracy of Chemonics' financial data reporting for the GHSC-PSM project. We determined that financial data was sufficiently reliable for the five direct drop deliveries reviewed. We do not project the results of our analysis beyond these sample items, and we do not conclude on the overall accuracy of Chemonics' financial data in the management information system.

   We assessed the reliability of inventory reports generated from the regional distribution centers that are reported to Chemonics. To conduct this assessment, we reviewed reports covering February through September 2018 for each of the regional distribution centers to identify totals and trends in inventory levels and costs.[58] We identified items with low remaining shelf lives identified if items were allocated to an order, and identified if the regional distribution centers had any expired products listed among their inventory. During visits to each warehouse, we performed tests to confirm the existence of selected commodities in the warehouse and to confirm the details in the inventory reports for these items.

   In selecting the commodities for the testing, we ensured that a variety of scenarios were represented, including items with both high and low remaining shelf lives, damaged or expired items, and items of both high and low value. Not all scenarios were available in all the warehouses. We selected a judgmental sample of 6 commodities in Belgium, 20 in Dubai, and 10 in South Africa. We determined that the inventory reports for the regional distribution centers were sufficiently reliable for the purpose of the audit. We do not project the results of our analysis beyond these sample items, and we do not conclude on the overall accuracy of Chemonics' inventory in its regional distribution centers.

[57] As of July 11, 2018, Chemonics had processed 2,286 line items for Haiti, 585 line items for Ukraine, and 268 for Vietnam through the GHSC-PSM project.

[58] Visits to regional distribution centers took place in April and September 2018. We reviewed the reports for the two months prior to the first visit and for each month until our September visit to provide additional insight into trends in the regional distribution centers.

APPENDIX B. AGENCY COMMENTS (ORIGINAL)

TO: Global and Strategic Audits Division, Director, Van Nguyen

FROM: Alma Golden, M.D., Assistant Administrator,
Bureau for Global Health /s/
Mark Walther, Director, Office of Acquisition and Assistance,
Bureau for Management /s/

DATE: December 27, 2020

SUBJECT: Management Comment(s) to Respond to the Draft Audit Report Produced by the Office of Inspector General (OIG) titled, *Award Planning and Oversight Weaknesses Impeded Performance of USAID's Largest Global Health Supply-Chain Project* (9-000-21-00X-P)

The U.S. Agency for International Development (USAID) would like to thank the Office of Inspector General (OIG) for the opportunity to provide comments on the subject draft report.

USAID agrees that the process of awarding the contract for the Global Health Supply Chain - Procurement and Supply Management (GHSC-PSM) was imperfect. We also concur that the performance of the winning consortium led by Chemonics International during its first 18 months of implementing the agreement was uneven. The Agency's current leadership, both at the corporate and Bureau levels, would have made very different decisions about the design of the GHSC-PSM project and the contract to carry it out. The GHSC-PSM contract is the largest acquisition award in the history of USAID, and we could, and should, have done it better.

Nevertheless, we assert that the OIG has based certain key findings in draft report 9-000-21-00X-P on faulty logic and incomplete or inaccurate data. We believe that the attached Management Comments and voluminous supporting evidence show that, in accordance with the Federal Acquisition Regulations and sound procurement-management principles, USAID did undertake thoughtful

and deliberative (although not perfect) processes during the design, solicitation, evaluation, and award of the GHSC-PSM project, and has exercised close management and oversight of the contract since. The consortium that is implementing the contract is performing far better now than it did three years ago, because of intense, high-level management engagement by the Agency beginning at the start of Calendar Year 2017.

Over the past two-and-a-half years, USAID has used the insights offered by the OIG and external stakeholders to re-examine the premises behind the GHSC-PSM project. Previous recommendations from the OIG and our own market research have convinced us that we need an entirely different design for the follow-on to GSC-PSM, which we are calling our Next-Generation Global Health Supply-Chain Suite of Programs (NextGen). As shown in the Requests for Information we have published here, the architecture for NextGen incorporates lessons learned from our current Health-related supply-chain program, including the GHSC-PSM project, and addresses directly many of the concerns raised in the OIG's draft report. Most important, the design of NextGen segments global procurement and logistics by health program and supply category into four separate contracts. This fundamental shift acknowledges the unique requirements of USAID's different health programs and the medicines and health commodities they need to purchase, and will build in prudent redundancy as one risk-mitigation measure. The design also consolidates health areas into central contracts for functions for which we see alignment in priorities, which will mitigate such risks as duplicate costs and mismatched activities between programs. These awards will cover quality-assurance, in-country logistics, technical assistance, and a "control tower" for the whole program. The control tower will enhance the Agency's oversight capabilities for the new program significantly by providing end-to-end visibility into NextGen's operations and access to a single source of information across all activities for tracking and managing problems, generating management dashboards and reports, and supporting monitoring and evaluation. NextGen also will incorporate other activities to enhance our oversight of the program and the performance of the contractors, including one or more new awards expressly dedicated to the management of supply-chain risk for all of NextGen.

USAID agrees with all 14 recommendations in draft report 9-000-21-00X-P, and already has made significant progress in implementing them. Therefore, the Agency requests that the OIG close all of the recommendations, apart from Recommendations 10 and 11, upon issuing the Final Report for this engagement.

COMMENTS BY THE U.S. AGENCY FOR INTERNATIONAL DEVELOPMENT (USAID) ON THE DRAFT AUDIT REPORT PRODUCED BY THE USAID OFFICE OF INSPECTOR GENERAL (OIG) TITLED, *AWARD PLANNING AND OVERSIGHT WEAKNESSES IMPEDED PERFORMANCE OF USAID'S LARGEST GLOBAL HEALTH SUPPLY CHAIN PROJECT* (9-000-21-00X-P)

Introduction

Please find below the Management Comments by the U.S. Agency for International Development (USAID) on draft report draft report 9-000-21-00X-P produced by the Office of Inspector General (OIG), which contains 14 recommendations for the Agency.

USAID agrees that the process of awarding the contract for the Global Health Supply Chain - Procurement and Supply Management (GHSC-PSM) project was imperfect. We also concur that the performance of the winning consortium led by Chemonics International during its first 18 months of implementing the agreement was uneven. The Agency's current leadership, both at the corporate and Bureau levels, would have made very different decisions about the design of the GHSC-PSM project and the contract to carry it out. We recognize the vulnerabilities presented by a single-source contract that is "too big to fail" because millions of people depend on the life-saving medicines and health products USAID buys through it. The GHSC-PSM contract is the largest acquisition award in the history of USAID, and we could, and should, have done it better.

Nevertheless, we assert that the OIG has based certain key findings in draft report 9-000-21-00X-P on faulty logic and incomplete or inaccurate data. With regard to the first objective of the audit, to "assess how USAID's GHSC-PSM contract was designed and awarded," in accordance with the Federal Acquisition Regulation, the Agency did undertake thoughtful and deliberative (although not perfect) processes during the design, solicitation, evaluation, and award of the contract during the period from 2013 to 2015. We reject the implication in the draft report that minor errors committed in the evaluation of past performance during the award process might have undermined the validity or integrity of the selection process.

With regard to the second audit objective, to "determine whether USAID managed the GHSC-PSM contract to provide for accurate and timely delivery of commodities to selected host countries," in accordance with Federal management-control principles, the Agency has exercised close management and oversight of the GHSC-PSM

contract, which has led to significant performance improvements that Chemonics International and its partners have sustained. The consortium that is implementing the contract is performing far better now than it did three years ago, because of intense, high-level management engagement by the Agency beginning at the start of Calendar Year 2017.

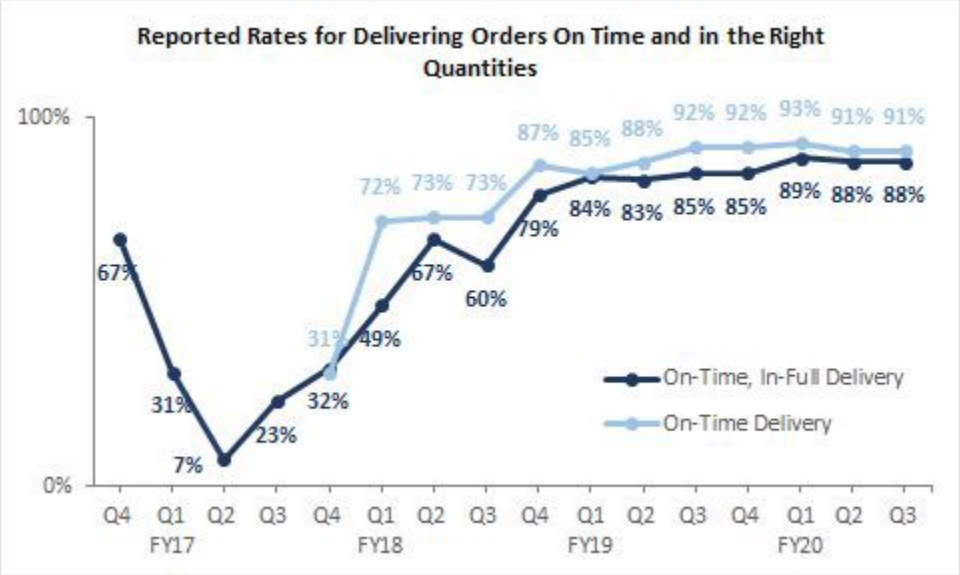
USAID took a series of actions during the period of the audit (June 2010 - January 2016 for Objective One; January 2016 - November 2019 for Objective Two) and subsequently to improve our policies, systems, processes, and tools for planning awards and overseeing contracts. We highlight these improvements (completed and planned), many of which responded to recommendations by the OIG in other audit reports, in the following sections.

USAID agrees with the 14 recommendations in draft report 9-000-21-00X-P, and already has made significant progress in implementing them. Therefore, the Agency requests that the OIG close all of the recommendations, apart from Recommendation 10 and 11, upon issuing the Final Report for this engagement.

Technical Comments from the U.S. Agency for International Development on Draft Report 9-000-21-00X-P

1. **Updating Progress Against Key Performance Indicators in the Contract for the Global Health Supply Chain - Procurement and Supply Management (GHSC-PSM) Project**

Draft report 9-000-21-00X-P covers the period from January 2016 through November 2019. The document presents data for the contract's Key Performance Indicators (KPIs) of on-time delivery (OTD) and on-time, in-full delivery (OTIF) only from the fourth quarter of Fiscal Year (FY) 2016 through the fourth quarter of FY 2018 (Figure 3 in the draft report). Below please find updated data to show the performance of the GHSC-PSM consortium led by Chemonics International through the third quarter of FY 2020:



The draft audit report states in the present tense that "more oversight is needed to improve timeliness and contractor performance" (Page 25). While USAID agrees that greater oversight was necessary at the beginning of the contract, the report's assertion is misleading. When the Bureau for Global Health (GH) discovered at the end of Calendar Year (CY) 2016 that Chemonics International and its partners were falling far short of the contract's KPIs, it began to apply considerable pressure on the consortium. This enhanced oversight, which accelerated with the arrival at USAID of new political leadership in the middle of CY 2017, resulted in a management shake-up at Chemonics

and increased, high-level attention to the contract's performance within the entire Agency, not just GH.

The updated data for OTD and OTIF above show the results of this work. USAID's oversight of the GHSC-PSM contract has ensured that the consortium made sustained improvements in its performance

during the period covered by the audit, which have trended upwards in the last 18 months. Since the first quarter of FY 2019, the consortium's performance has exceeded the contract's required targets consistently and achieved an average OTD of 90 percent. OTIF has had a similar positive trajectory.[59]

2. Order Promising Tool and Early-Delivery Reason Code

A bottom-line conclusion in draft report 9-000-21-00X-P is the following:

> "Two tools [the order promising tool (OPT) and early-delivery reason code] introduced to improve predictability and reliability affected what could be counted as on time, hindering the Agency's ability to determine the extent to which its reported results reflected improvements in performance" (p. 25).

This conclusion is misleading, for the following reasons:

- Among the foremost concerns for any supply-chain is the reliability and predictability of its commitments to customers. OTD and OTIF are measures of a supply-chain's ability to meet these commitments. In response to USAID's oversight concerns, Chemonics introduced the OPT in October 2018 to improve the reliability and predictability of Chemonics' commitments (*i.e.*, agreed delivery dates) to USAID's overseas Missions and their country partners. The improvements in OTD and OTIF are demonstrable and clearly show that the GHSC-PSM consortium has developed a more reliable and predictable ability to meet its commitments, the purpose of creating the OPT. The draft report offers no substantive evidence to suggest that the introduction of the OPT was anything but a measure to improve actual performance and that the reported results are anything but real. Supply-chains continuously improve their processes and tools to drive better performance. These changes do not render less real the measured improvements that result.

[59] Recent data for OTD and OTIF takes into account USAID-authorized use of a new reason code for COVID-related impacts on delivery times.

- A cornerstone of the draft report's analysis of the use of the OPT and early-delivery reason code is that the longer lead times adopted by the GHSC-PSM consortium do "not require Chemonics to set ambitious agreed delivery dates [ADDs] that may better meet customer expectations" (Page 41). USAID engaged early in the GHSC-PSM project with Chemonics on lead times and requested more realistic estimates. The consortium adopted new estimated lead times as part of the OPT upon its introduction in October 2018. Draft report 9-000-21-00X-P states that "no one in USAID approved" the changes that lengthened estimated lead times. This statement is incomplete and misleading. USAID has conducted reviews of lead times, including during the period covered by the audit. Most reviews of the GHSC-PSM contract within GH take place at the level of Task Order (TO) to account for the specific product characteristics and processes that affect lead times. Overall, these reviews have not demonstrated that the lead times used by the GHSC-PSM consortium have been inappropriately long. The following paragraphs present detailed analysis of lead times under each of the contract's TOs:

  TO 1: As a programmatic imperative, USAID's staff that work on the supply-chain for HIV under the President's Emergency Plan for AIDS Relief have engaged closely with Chemonics on cycle time, which includes lead time, since the beginning of the project in 2016. On multiple occasions, the Office of the U.S. Global AIDS Coordinator (OGAC) has made changes in PEPFAR's guidelines for prevention and treatment that have led to major shifts in the products USAID requires GHSC-PSM to procure and deliver. Examples are a switch in global anti-retroviral (ARV) medications for adults in 2017, the phase-out of all Nevirapine treatment products in 2018, and expanding the use of pre-exposure prophylaxis (PrEP). These product changes have required the teams at GH and Chemonics to focus continually on product cycle time and lead time to implement changes in treatment regimens in ways that minimize disruption to PEPFAR-funded programs in the field. USAID's oversight of cycle and lead times for purchase orders under TO 1 has evolved into several formal, product-specific reviews held with Chemonics on a regular basis. Most recently, we have added a formal review for tuberculosis-related products.

  TO 2: USAID has reviewed purchase orders under TO 2 on a biweekly basis since the start of the GHSC-PSM project. Among other things, these reviews flag those orders that exceed the estimated lead times for

each step in the transaction to ensure that Chemonics and its partners can take any appropriate corrective actions. When Chemonics is ready to place purchase orders with suppliers, USAID again reviews the lead time used in the OPT, which includes the lead times for the steps from the placement of an order to delivery in country.

In addition, USAID has required GHSC-PSM to prepare lead-time tables for malaria medicines and commodities on an annual basis since the start of the project. GH's supply-chain team under the President's Malaria Initiative (PMI) reviews these lead-time tables, which GHSC-PSM then revises before the U.S. Global Malaria Coordinator includes them in PMI's annual guidance for Malaria Operational Plans (MOPs) sent to our country teams to assist them in planning their orders.

In March 2019, USAID conducted a review of planned lead times and actual cycle times for malaria medicines and commodities for the second quarter of FY 2018 through the first quarter of FY 2019 and compared them against those for malaria drugs and commodities purchased by the Global Fund to Fight AIDS, Tuberculosis, and Malaria (Global Fund). The review found that GHSC-PSM's lead times are only slightly longer (zero to four months, depending on the medicine or commodity) than Global Fund's, because of differences in the processing and financing of orders. The goal of this exercise was to identify the differences in lead times between donors so as to communicate between them, and with Ministries of Health, the appropriate lead times to use when placing orders from each donor.

In January and February 2020, USAID conducted an analysis of purchase orders under TO 2 that compared the lead times estimated by GHSC-PSM for segments in the order process (*e.g.*, order clarification, quality-assurance testing, manufacturing) to the corresponding actual cycle times as the orders moved through the segments. The analysis found that actual cycle times for many segments tended to be longer than the estimated lead times for these segments, which indicates that GHSC-PSM's lead times are not inappropriately long, but are shorter than the actual lead times. As further argued below, GHSC-PSM's lead times are not overly conservative, and indeed might be underestimated because of external factors that can intervene in the order process and are difficult to predict with any reliability in the operating environment typical in

developing countries. Draft report 9-000-21-00X-P acknowledges these factors (Page 26), which can include, for example, manufacturers' production problems and uncertainty over when GHSC-PSM receives new funding each Fiscal Year.

TO 3: In FY 2018, USAID conducted a detailed analysis of lead times set by
GHSC-PSM for TO 3 through the life of the project, including those estimated by using the OPT. This evaluation found that the lead times estimated by GHSC-PSM b using the tool were very similar to those used by the predecessor USAID | DELIVER PROJECT (DELIVER) for 91 percent of purchase orders. The instances in which GHSC-PSM's lead times were longer than those of DELIVER coincided with known global commodity shortages. In addition, USAID compared ADDs based on GHSC-PSM's lead times to Mission-requested delivery dates and found that, for 75 percent of the orders, the ADDs were within a month of the requested delivery date. For about 19 percent of the orders, the delivery dates requested by the Missions were unrealistic, based on the transportation time from the supplier or regional distribution center (RDC) to the destination country.

In FY 2019, USAID conducted another analysis jointly with GHSC-PSM to review the OPT and ascertain the reliability of the lead times set for TO 3 by using the tool. The evaluation found that lead times set by the tool were within 1.5 weeks of the actual cycle time for a majority of the orders, which demonstrates improved reliability and predictability of performance. Instances in which a GHSC-PSM procurement specialist had to revise the lead times set by the tool corresponded with commodity shortages.

Finally, and most recently, all of the TOs receive a weekly risk report related to COVID-19 from GHSC-PSM that documents which orders the pandemic has affected and where, from order to delivery. This report includes the requested delivery date, ADD, and estimated delivery date for products across all TOs under the GHSC-PSM contract, along with a calculation to show the difference between the estimated and ADDs. USAID thereby has greater visibility into the specific impact of COVID-19 on orders and their lead times. These reports will continue until the normalization of global operations.

- Draft report 9-000-21-00X-P states that the use of longer lead times has created "a gap between USAID's expectations and the project's promised delivery dates for commodities." The "gap," however, is not well-substantiated, nor shown to be meaningful. Almost two-thirds of surveyed staff at USAID's Missions stated that lead times were either accurate or ambitious, or had no opinion (Page 29). The draft report only documents one case in which a Mission expressed its opinion that lead times were overly conservative (Page 29). The document does not provide similar data from comparable supply-chain organizations and does not point to industry standards or practice in general to suggest that the leads times used by Chemonics have been overly conservative for the kinds of products that it procures and for the kinds of operating environments in which it must deliver these products. (See above for such an analysis done by USAID.) Most significantly, the draft report acknowledges that "[The OIG] did not evaluate the reasonableness of USAID's requested delivery dates" (p. 30). Without an evaluation of the reasonableness of our Missions' expectations, it is impossible to determine whether "gaps" between these expectations and GHSC-PSM's promised delivery dates are because of overly conservative lead times and/or unreasonable expectations. The draft report clearly favors the former, without an evaluation of the latter possibility. USAID believes, and the reviews described above support, that GHSC-PSM's lead times have been appropriate given the manifold uncertainties in the operating environments in developing countries and the factors beyond the control of either USAID or Chemonics that can lengthen lead times substantially (which the draft report acknowledges on Page 26). When Chemonics has been able to exceed its ADD commitments with early deliveries, despite the uncertainties and factors beyond its control, this result represents an actual improvement in performance.

- A concluding statement in draft report 9-000-21-00X-P reiterates, with additions, the bottom-line conclusion quoted above by stating the following:

  > "Because these changes [use of the OPT and early-delivery reason code] to the implementer's internal processes were made concurrently with other mitigating measures designed to improve performance, the Agency cannot determine the extent to which its reported results reflect actual improvements in performance" (pp. 30-31).

  This is a logical fallacy. That USAID took several mitigating measures to improve Chemonics' performance, in addition to the OPT and early-delivery

reason code, has little to do with the question of whether the reported results reflect actual performance improvements. More to the point, because the Agency implemented other steps to boost Chemonics' performance that the audit did not examine (as the draft report acknowledges on Page 27), we can not dissect the specific effects of the OPT and early-delivery reason code on the performance of the consortium adequately. This is a fundamental weakness in the audit's methodology. The lack of any assessment of the other mitigating measures USAID undertook confounds any attempt to define a line of sight from the OPT and early-delivery reason code to performance improvements by GHSC-PSM. All the OIG and USAID can say is that these tools contributed to actual performance improvements, but we cannot define the exact nature and magnitude of their effect.

- Finally, an independent mid-term review of the GHSC-PSM project completed in February 2020, conducted by experts in supply-chains and monitoring and evaluation, verified that "after a weak start, GHSC-PSM met difficult targets, including on-time delivery and on-time in-full delivery" (Page *iii*)[60]. The review team saw no reason to question whether the achievement of these targets was real and demonstrable and observed that:

  > "On-time, in-full delivery (OTIF) and on-time delivery (OTD) show steady improvement, such that GHSC-PSM is currently either meeting or exceeding its targets. To achieve this improvement, GHSC-PSM and Chemonics leadership worked closely with USAID to make critical management and operational changes. An action plan with USAID was developed, reported on, and completed" (Page *xii*).

The Use of Regional Distribution Centers (RDCs)

Draft report 9-000-21-00X-P highlights that "that RDCs were not used as proposed" in the network-optimization model developed by Chemonics with USAID early in the GHSC-PSM project. It is true that the actual use of RDCs was lower than originally modelled. However, as the draft report acknowledges, the audit did not analyze why Chemonics fulfilled orders directly from suppliers rather from the RDCs. Further, the aim of effective supply-chain management is to begin with a model and dynamically adjust actual practice as real circumstances dictate, not to make the supply-chain work according to the model. USAID, Chemonics and the partners in the GHSC-PSM

[60] The mid-term review of the GHSC-PSM project can be found at https://dec.usaid.gov/dec/content/Detail_Presto.aspx?vID=47&ctID=ODVhZjk4NWQtM2YyMi00YjRmLTkxNjktZTcxMjM 2NDBmY2Uy&rID=NTYwMzYw.

consortium make decisions about how to fulfill orders on a case-by-case basis and take into account a range of factors that are subject to constant flux, including changes in supply availability and global demand. The OIG should not expect USAID or Chemonics to make decisions on the procurement of medicines and medical commodities to fulfill a predetermined model.

The draft report critiques the Agency's lack of monitoring of the use of RDC during the period covered by the audit (January 2016 - November 2019), by stating that "USAID did not know how much the centers were being used" (Page 31). This statement is misleading. Since the start of the GHSC-PSM project, USAID and Chemonics developed and implemented processes and tools to monitor and adjust the use and performance of RDCs by using contractually mandated KPIs and through routine monitoring activities. USAID's Management Comments to Recommendation 9 below detail these actions further.

Evaluation of Past Performance during the Award of the GHSC-PSM Contract

Draft report 9-000-21-00X-P critiques the assessment of information on past performance during the award of the GHSC-PSM project. The report states that the Contracting Officer (CO) responsible for completing the award for GHSC-PSM did not address certain comments from USAID's Contract Review Board (CRB), documented in the notes from its meeting in July 2014, and suggests a consequent failure or gap in a component of the Agency's procurement process (Page 26). The CRB's relevant comment states in its entirety:

> "The CRB checked the summary statements below the headings against the past performance matrices provided for review and found inconsistencies between the statements and what is actually contained in the matrices. Please conduct a close review of all the statements contained in the narratives against what is actually reflected in the matrices to ensure they are consistent and can be supported."

The draft report contends that the CO did not address this mandatory comment, and implies that the oversight compromised the integrity of the procurement. However, the CRB's comment referred to the summary statements only, not all statements initially included in the memorandum from the Technical Evaluation Committee (TEC) that reviewed the proposals received under the solicitation for the contract. The summary statements were removed from the TEC memo, and the CRB's comment was resolved, as confirmed in the pre-award meeting of the CRB meeting (its final session, which took place in February 2015), during which the CRB reviewed the "CO's response to

[the CRB's] Minutes from the Competitive Range review, conducted on July 31, 2014 ('CO's Response to CRB Minutes')." The CRB's notes related to its review of this document states that it "adequately addressed" all of the comments from the CRB's meeting in July 2014.

The draft report also notes that transcription errors occurred during the past-performance evaluation of proposals for the GHSC-PSM award. The TEC reviewed the proposals according to six factors, weighted in descending order from most important to least important. Past performance was the fifth. Moreover, the past-performance factor included six sub-factors that were equally important. It is important to note that, because of the low weight of these sub-factors in the evaluation process overall, even had the TEC or CRB caught or corrected the errors, the revised result would not have had a significant effect on the overall rating of Chemonics' proposal or the source-selection decision made by the CO.

Management Comments from the U.S. Agency for International Development on the Recommendations of the Office of Inspector General in Draft Report 9-000-21-00X-P

Recommendation 1: Revise policy to clarify the role and the extent of involvement of the Contracting Officer on a project Design Team to ensure compliance with the Federal Acquisition Regulation.

- **Management Comments:** The U.S. Agency for International Development (USAID) agrees with the recommendation, and we outline below the actions we already have taken to address it.

Completed Actions

Two Chapters of USAID's Automated Directives System (ADS)[61], which details the policies and procedures that guide the Agency's programs and operations, are relevant to this recommendation. Since USAID let the Global Health Supply-Chain — Procurement-Supply Management (GHSC-PSM) contract in April 2015, the Agency has updated ADS Chapters 201 and 300, each of which explains the role and extent of involvement of the Contracting Officer (CO). ADS Chapter 201, Operational Policy for the Program Cycle, discusses "USAID's operational model for planning, delivering, assessing, and adapting development programming in a given region or country to advance U.S. foreign policy." ADS Chapter 300, Acquisition and Assistance Planning, details our "policy directives, required procedures, and internal guidance for the planning of USAID direct Acquisition and Assistance (A&A) activities." These revised Chapters highlight the roles of the CO and the Office of Acquisition and Assistance (OAA) within the Bureau for Management (M), as described below.

ADS Chapter 201: Section 201.2 describes the responsibility of M/OAA to provide primary leadership in communicating and advising how the Agency can leverage our broad range of A&A instruments to achieve outcomes throughout the Program Cycle. Section 201.3.4.1 (Roles in the Design and Implementation of Activities), states that,

[61] The ADS is publicly available at https://www.usaid.gov/who-we-are/agency-policy.

> "The design and implementation of activities is a core interdisciplinary function that requires skills and expertise that span organizational and functional boundaries. [Operating Units] therefore should promote efficient and constructive interactions between key offices and functions to ensure alignment and consistency among the technical, legal, budgetary, and managerial facets of each activity."

This Section further states that the CO serves as a business advisor to provide guidance on how our Missions can achieve intended results with the Agency's broad range of A&A mechanisms; reviews supporting solicitation documents prepared by each Design Team and makes the final determination on the selection of instrument; ensures that Statements of Work (SOWs) or Objectives (SOOs), Program Descriptions, and other A&A documents are consistent with the selected type of instrument; solicits, negotiates, awards, and administers A&A awards; delegates certain award-management responsibilities to designated Contracting Officer's Representatives/Agreement Officer's Representatives (CORs/AORs); and advises CORs/AORs during implementation on how to make programmatic adjustments where necessary to enable adaptive management, all in accordance with their delegated authority and within applicable statutes, regulations, and policies.

ADS Chapter 300: Updated Section 300.3.3 states:

> "The program and technical offices must include their CO/[Agreement Officer (AO)] in the design stage of their actions. If the design stage identifies that [information technology (IT)] or IT resources are required in support of a contract, the program and technical offices must contact [the Office of the Chief Information Officer (CIO) in the M Bureau] at ITAuthorization@usaid.gov to pre-vet requirements and obtain conditional approval to proceed. The program and technical offices must also submit draft documentation with all applicable timeframes (for example, when the activity/project will be approved, when the [SOW], including evaluation criteria, instructions to offerors/applicants and an independent Federal Government cost estimate, will be provided) to the CO/AO, as early as possible in the planning process. The

> COs/AOs, in turn, will work with the cognizant project/technical staff on the dates that the CO/AO must enter for the solicitation through the award phase."

- **Target Completion Date:** The Agency's Management Comments above describe how the updated Chapters of the ADS document the role and the extent of involvement of the CO on a Design Team for a project or activity to ensure compliance with the Federal Acquisition Regulation (FAR). USAID thus requests that the Office of Inspector General (OIG) close Recommendation 1 upon the issuance of its Final Report.

Recommendation 2: Develop and implement guidance outlining the minimum supporting documentation required for key decisions influencing the design of an award.

- **Management Comments:** USAID agrees with the recommendation, and we outline below the actions we already have taken to address it.

Completed Actions

As stated in ADS Chapter *300*:

> "Federal and Agency regulations and directives, including [Part 7.102 of the FAR] and ADS [Chapter] 201, Program Cycle Operational Policy, require advance planning for Agency A&A awards. In particular for acquisition, the FAR requires all U.S. Government Departments and Agencies to perform acquisition planning and conduct market research to ensure that the Government meets its needs in the most effective, economical, and timely manner possible. Similar planning for assistance is also essential. The Agency A&A Plan is USAID's business system for A&A planning."

ADS Chapters 201.3.4.5 1 and 300,3,5 together detail USAID's A&A design process, including the required documentation. These elements include the Project Development Document; analyses and reviews to inform the Activity Description (see below); the Project Plan for Monitoring, Evaluation, and Learning; the Selection-of-Instrument Memorandum and supporting documents; the Individual Acquisition Plan (if required); market research; the Activity

Description (Scope of Work, Performance Work Statement, SOW or SOO, or Program Descriptions); Independent Government Cost Estimate; other requisition documents needed for the Global Acquisition and Assistance System; and other design-related documents that detail deliverables, instructions to bidders, criteria for evaluating proposals, a branding and marking plan consistent with USAID's standards; the Checklist of Inherently Governmental Functions; climate-risk assessment; the Initial Environmental Examination; gender analysis; the Public Financial-Management Risk-Assessment Framework (if applicable); any waivers or special clearances; and the Senior Obligation Alignment Review (SOAR) Documents, as applicable.[62]

Additionally, ADS Chapter 300.3.5.1 (Small Business Review) requires a review by USAID's Office of Small and Disadvantaged Business Utilization (OSDBU) of all planned acquisitions in excess of $25,000, with some exceptions. The CO must complete Small Business Review Form 1410-14 to obtain OSDBU's concurrence for the proposed acquisition strategy.

USAID has additional documentation requirements related to the use of IT in a planned award, which include a review by the Agency's CIO. The Agency must perform market research in accordance with Part 10 of the FAR for all acquisitions that include IT. If custom development of an IT solution is necessary, the Agency must address how it determined that no existing solutions are available to meet the requirement.

Finally, in addition to the required documentation described above, ADS Chapter 300.3.8 (Agency A&A Templates for Technical Officers and Contracting Professionals) outlines the mandatory templates that Design Teams and AOs/COs must use to document decisions throughout the processes of planning, solicitation, and evaluation.

- **Target Completion Date:** The Agency's Management Comments above describe how the updated ADS Chapter provides guidance that outlines the minimum supporting documentation required for key decisions that influence the design of an award. USAID thus requests that the OIG close Recommendation 2 upon the issuance of its Final Report.

[62] The Project Development Document (PDD) replaces the Project Appraisal Document (PAD). The GHSC-PSM project was approved under a PAD.

Recommendation 3: Develop and implement guidance to help prepare risk-assessments, mitigation plans, and plans during project design that take into account the consequences of failing to achieve goals in accordance with the Federal Acquisition Regulation.

- **Management Comments:** USAID agrees with the recommendation, and we outline below the actions we already have taken to address it.

  USAID initially awarded the Indefinite-Delivery/Indefinite-Quantity (IDIQ) contract for the GHSC-PSM program in April 2015. USAID has made significant strides in addressing risk in our portfolio of investments since that time. During the course of the last five years, USAID has updated our ADS policies related to the design of projects and activities and the management of risk and issued additional guidance, including on Enterprise Risk-Management (ERM), that addresses assessing and mitigating risk in more detail. In response to revisions to Circular A-123 made by the Office of Management and Budget in 2016, USAID and other Federal Departments and Agencies have had to integrate ERM into all of our work. ERM also requires that all USAID's Missions and Washington Operating Units (OUs) complete a Risk Profile each year.

  Completed Actions

  ADS 201: ADS Chapter 201, substantially revised on October 28, 2020, addresses the analysis and mitigation of risk through the design process and through the use of monitoring, evaluation, and learning. Updated Section 201.3.2.15 focuses on the Performance-Management Plan (PMP), a key tool for mitigating risk used through the planning and managing processes that include the evaluation of performance and impact as well as learning and collaborating from evidence. ADS Chapter 201 outlines the content of the PMP and highlights its importance in collecting data on performance indicators. The PMP also must include an evaluation plan that identifies all evaluations performed at the Mission or Washington OU level during the life of a project or activity.

  Section 201.3.4 describes the many factors that OUs should consider during the process of designing an activity and awarding a grant, cooperative agreement, or contract. One such consideration is supporting innovation, co-creation, and/or co-design. Codified in USAID's program-design policy, such approaches

also are the centerpiece of USAID's *A&A Strategy*. Specifically, the *Strategy* encourages incentivizing and strengthening USAID's engagement with the private sector, with a focus on how USAID and our partners together will determine in the design phase both the shared reward and the risk of an activity.

Section 201.3.5 outlines in great detail USAID's policy for monitoring performance. The ADS Chapter describes the types of programmatic monitoring that the Agency's OUs must conduct to ensure implementation is on track. The Chapter also requires that OUs conduct context-monitoring to track local conditions that could directly or indirectly affect the implementation and performance of their awards. It outlines the types of indicators; the selection of indicators; how to change indicators; baselines; targets; disaggregation; how to store and use data; and the quality of the data, including data-quality assessments.

In similar fashion, updated Section 201.3.6 addresses the principles of evaluation; the various types of evaluations; the requirements for evaluations; the planning, implementation, reporting, and use of the evaluation. Section 201.3.7 addresses collaboration, learning, and adapting (CLA), which brings together the components of USAID's entire Program Cycle. Similar to the sections on monitoring and evaluation, the CLA policies in Section 201 describe planning for, and approaches to, CLA.

Agency Supplemental Guidance: In addition to our updates to ADS Chapter *201*, in July 2019 USAID released a Technical Note titled, "Enterprise Risk-Management in the Program Cycle." This document serves as supplemental guidance to ADS Chapter 201 and identifies risk throughout USAID's Program Cycle, including the design and implementation of activities.[63] The note specifically states that, "Flexible, iterative design is explicitly encouraged in both the The Risk-Appetite Statement and the Agency's 2018 [*A&A Strategy*]. The guidance encourages our Missions to "design activities less prescriptively and more collaboratively." Procurement processes that feature flexible, iterative and

[63] The technical note can be found at: (https://pages.usaid.gov/system/files/erm_in_the_program_cycle_-_ads_201_technical_note.pdf). The Program Cycle is USAID's operational model for planning, delivering, assessing, and adapting development programming in a given region or country to advance U.S. foreign policy. It encompasses guidance and procedures for: 1) making strategic decisions at the regional or country level about programmatic areas of focus and associated resources; 2) designing projects and activities to implement strategic plans; and 3) learning from performance monitoring, evaluations, and other relevant sources of information to make course corrections and inform future programming, as needed.

collaborative design of activities support ERM by facilitating our ability to respond to risks and seize opportunities.

The Technical Note also discusses the importance of ERM in the design and implementation of activities and suggests questions OUs should ask throughout the process. It also identifies documents in which to memorialize ERM and innovation throughout the design process, by building on what ADS Chapter 201 codifies and advises on conducting certain risk-analyses and implementing mitigation measures. The Technical Note highlights the SOAR process, which requires planners to articulate the most compelling risks and opportunities of a proposed activity.

The Technical Note further highlights and addresses the risk-mitigation tools available during the design and implementation of activities, which include the following:

- "The NUPAS [Non-U.S. Organization Pre-Award Survey] ... a tool to mitigate the fiduciary risk of new non-governmental partners";

- "The Organizational Capacity Assessment (OCA) and the Organizational Performance Index … both tools to help [AORs] identify and mitigate some of the programmatic risk aspects of new, untried implementing partners related to their technical capacity constraints";

- "The Stage II [Public Financial-Management Risk-Assessment Framework] Risk-Mitigation Plan[, which] outlines a Government-to-Government (G2G) activity's specific fiduciary risks and describes the corresponding mitigation measures that will be taken"; and

- "The use of third-party monitoring [to] mitigate the risk of not being able to monitor activities in non-permission environments."

Expanding on ADS Chapter 201.3.5, Section 6 of the Technical Note further expands on the importance of monitoring, evaluation, and learning (MEL) plans. It notes that MEL plans for projects and activities capture potential risks to achieving measurable results, and reflect USAID's strategic priorities.

Effective Partnering and Procurement Reform (EPPR)[64]*:* While anticipating every possible risk under a project or activity is not possible, USAID has recognized the need to address risk in our portfolio through redoing the way we do business. In our *A&A Strategy*, USAID has dedicated itself to adopting[65]

> "pay-for-results approaches (performance-based, development impact bonds, or use of milestone payments), as often as practicable, and in some cases as a component of otherwise cost-reimbursement awards, as a way to encourage more accountability, distribute risk, and focus on measurable outcomes." (p. 6)

Furthermore, our *A&A Strategy* also emphasizes shifting

> "the training and responsibilities of [CORs]/AORs from only ensuring compliance to focusing on performance management and adaptive partnering with an emphasis on appropriate risk management, on time M&E plans, regular site visits, and consistent, real-time interaction with partners at all levels." (p. 11)

Additionally, USAID is focusing on

> "empowering and equipping our employees to exercise sound business judgment, solve problems, and address risks as opposed to relying on prescriptive organizational structures and policies to attempt to ensure homogenized, low-risk responses." (p. 12)

The FAR: Part 49 of the FAR and its associated contract clauses allow the U.S. Government to terminate contracts, either partially or completely, either for default or for convenience. According to Part 49.4 of the FAR, the U.S. Government may terminate a contract for default because of a contractor's actual or anticipated failure to perform its contractual obligations.

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[64] See https://www.usaid.gov/eppr.

[65] USAID's A&A Strategy can be found at https://www.usaid.gov/sites/default/files/documents/1868/AA-Strategy-02-04-19.pdf.

- **Target Completion Date:** USAID's Management Comments above describe how the Agency has developed and implemented guidance to help prepare risk-assessments and risk-mitigation plans during the design of projects and activities that take into account the consequences of failing to achieve our goals, in accordance with the FAR. USAID thus requests that the OIG close Recommendation 3 upon the issuance of its Final Report.

Recommendation 4: Develop and implement guidance to help address heightened risks posed by the use of single-source awards, specifically the increased potential for award protests, underperformance by the sole implementer, and lack of competition, in pre-award risk-assessments.

- **Management Comments:** USAID agrees with the recommendation, and we outline below the actions we already have taken to address it.

  As mentioned above, the Agency's current leadership, both at the corporate and Bureau levels, would have made very different decisions about the design of the GHSC-PSM project and the contract to carry it out. We recognize the vulnerabilities presented by a single-source contract with little redundancy that is "too big to fail" because millions of people depend on the life-saving medicines and health products USAID buys through it. Because of the corporate reputational and financial exposure of the GHSC-PSM award, USAID added it as a specific, stand-alone entry on our Agency's Risk Profile, the only instrument in our portfolio so listed.

  Over the past two-and-a-half years, USAID has used the insights offered by the OIG and external stakeholders to re-examine the premises behind the GHSC-PSM project. Previous recommendations from the OIG and our own market research have convinced us that we need an entirely different design for the follow-on to GSC-PSM, which we are calling our Next-Generation Global Health Supply-Chain Suite of Programs (NextGen). As shown in the Requests for Information we have published here, the architecture for NextGen incorporates lessons learned from our current Health-related supply-chain program, including the GHSC-PSM project, and addresses directly many of the concerns raised in the OIG's draft report.

  In addition, we have made significant changes to Agency policy that respond to Recommendation 4 in draft report 9-000-21-00X-P. We also released USAID's first *A&A Strategy*, which promotes pay-for-results approaches,

performance management, and adaptive partnering with an emphasis on appropriate risk-management.

We believe all of the measures mentioned above and laid out in more detail below are discouraging the use of single-award IDIQs, in line with the OIG's recommendation. A review of the 227 IDIQ awards made by USAID between FY 2015 and FY 2020 shows that only 37 were single-award contracts.

Completed Actions

FAR: As noted in the draft report, Part 16.504(c) of the FAR expresses a preference for multiple-award IDIQs over single-award IDIQs. Part 16.504(c)(ii)(C) of the FAR states that a Department or Agency must document the decision to use a single-award IDIQ. The decision to use a single-award IDIQ also should comply with Part 16.504(c)(ii)(B) o the FAR, which states that a Department or Agency must not use a multiple-award IDIQ in the following instances:

1. Only one contractor is capable of providing performance at the level of quality required because the supplies or services are unique or highly specialized;
2. Based on the [CO]'s knowledge of the market, more favorable terms and conditions, including pricing, will be provided if a single award is made;
3. The expected cost of administration of multiple contracts outweighs the expected benefits of making multiple awards;
4. The projected Task Orders are so integrally related that only a single contractor can reasonably perform the work;
5. The total estimated value of the contract is less than the simplified acquisition threshold; or
6. Multiple awards would not be in the best interests of the Government.

ADS Chapter 302: ADS Chapter 302.3.4.6, updated in November 2020, also reaffirms in USAID policy the FAR's preference for multiple-award IDIQs, highlights the risks of single-award IDIQs, and further states:

> "However, under some circumstances, single-award indefinite-quantity contracts may be appropriate. As required by [Part 16.504(c) of the] FAR, the [CO] must document the decision whether or not to use multiple awards in the acquisition plan or contract file....
> no task or delivery order contract in an amount estimated to exceed $100 million (including all options) may be awarded to a single source unless the head of the agency makes a determination in writing. The Administrator has delegated the authority to make this determination to the Director [of] M/OAA."

In July 2014, after the finalization of the Individual Acquisition Plan (IAP) for the GHSC-PSM contract in February 2014, USAID updates the Mandatory Reference to ADS Chapters 300 and 302 titled "Acquisition Planning for Indefinite Delivery Indefinite Quantity Contracts and Task Orders." This document provides considerations and requirements for appropriately documenting the rationale in IAPs to support the use of IDIQs, including single-award IDIQs and Task Orders beneath them.

ADS Chapter 201 and ERM: The risk-assessment and risk-mitigation measures as well as ERM outlined under our Management Comment to Recommendation 3 also apply to the planning of single-award IDIQs and the decision to issue a Task Order under a single-award IDIQ.

EPPR: As described above under our Management Comment to Recommendation 3, the Agency's EPPR reforms address the need to address risk better in our projects. The approaches outlined in the Agency's first *A&A Strategy* apply to a variety of contracting mechanisms, including single award IDIQs and Task Orders beneath them.

- **Target Completion Date:** USAID's Management Comments above describe how the Agency has developed and implemented guidance to help address the heightened risks posed by the use of single-source awards, specifically the increased potential for award protests, underperformance by the sole implementer, and lack of competition, in pre-award risk assessments. USAID thus requests that the OIG close Recommendation 4 upon the issuance of its Final Report.

Recommendation 5: Develop and implement guidance to help evaluate proposed management information systems by verifying system capabilities, such as by requesting case studies.

- **Management Comments:** USAID agrees with the recommendation, and we outline below the actions we already have taken to address it.

  USAID recognizes that additional guidance and a greater role by the Office of the Agency's CIO in the M Bureau during the design of this award, which occurred prior to April 2015, would have been beneficial. While the requirements for management-information systems (MIS) are unique to each procurement, in response to greater mandates and oversight related to IT across the U.S. Government, USAID has significantly revised and updated the relevant Chapters of the ADS to incorporate and address IT requirements in our awards.

  Completed Actions

  ADS Chapter 300: According to ADS Chapter 300, the Agency's SOAR process mandates that the CIO review all procurements in excess of $40 million. The policy specifically requires the CIO's approval for a proposed award if the grant, cooperative agreement, or contract will include IT for use by the Agency's staff. ADS Mandatory Reference 300sab, Frequently Asked Questions, expands on the criteria for determining whether an award falls within the scope of this approval requirement. These factors include the following:

  > "(1) [W]hether the Agency owns the IT; (2) how Agency personnel use the IT; (3) whether Federal information is collected, maintained, or processed; (4) what the Agency's rights to, and restrictions with, the data are; (5) whether the IT is interconnected to an Agency system; (6) what the purpose of the contract is; and, (7) what role the IT plays in the delivery of product and/or services under the contract."

- *ADS Chapter 509:* Section 509.3.4.2 requires our CIO's review and approval of all acquisitions or Inter-Agency Agreements (such as those used to support purchases through another Department or Agency) that include IT (see ADS 300) at the strategy, plan, or requirement level (as described in Part 7 of the FAR). The expanded role and involvement of USAID's CIO in procurements is the best way to evaluate the capabilities of a proposed MIS. According to Section 509.3.2.3, M/CIO will provide input and advice to do the following:

- "Explore the best approaches for leveraging technologies in international development and humanitarian programs and enhancing evidence-based decisions;

- "Minimize duplication across the Agency of IT investments required to support program-related activities, such as monitoring, evaluation, and collaborative learning and adapting; and

- "Ensure decision-makers at the Agency clearly understand the business needs for IT solutions and take an enterprise approach to drive effective and cost-efficient IT resource use."

Furthermore, Section 509.3.2.3 states the following:

> "B/IOs [Bureaus/Independent Offices] with large IT spending (*e.g.*, $5 million or more annually), including Program-funded IT resources, must develop an IT strategic plan (ITSP). B/IOs must engage M/CIO in the IT strategic-planning process and ensure their ITSP aligns with the Agency's ITSP."

ADS Chapter 547: ADS Mandatory Reference 547maa (Limits on Custom-Developed Software) includes guidance on the special award requirements for the procurement of custom-developed software, as follows:

> "If the B/IO [or Mission] has determined that there is no existing software solution and that the Agency must acquire custom software, and M/CIO has approved the request, the acquisition planner, in coordination with the Contracting Officer, must:
>
> "1. Ensure that the Agency has appropriate data rights to the custom developed code by including the standard intellectual-property clauses [52.227-14] and/or other custom clauses where required. [COs] must consult with the cognizant Regional Legal Officer or [the Office of the General Counsel] to ensure the inclusion of appropriate clauses;
> 1. Include the source code and other appropriate documentation as a deliverable under the award, specifying format, and ensure that a copy is sent to M/CIO upon application release; [and]
> 2. Include a requirement in the award that the software must be developed as Open-Source Software (OSS), unless M/CIO

> determines that an open-source license would have a detrimental impact on [the] Agency[‘s] Operations.
>
> “The [CO] must not solicit for or enter into an award including a requirement for custom-developed software for Agency use without confirming that the required approvals have been received and that the solicitation and award address the requirements above. M/CIO is responsible for maintaining a code inventory that lists all new custom-developed code and making that inventory available to other Federal [Departments and] Agencies, unless an exception is approved.”

- **Target Completion Date:** USAID’s Management Comments above describe how the Agency has developed and implemented guidance to help evaluate proposed MIS by verifying the systems' capabilities. USAID thus requests the OIG to close Recommendation 5 upon the issuance of its Final Report.

Recommendation 6: Conduct a review of the verification process used to determine the completeness and accuracy of the Global Health Supply-Chain – Procurement and Supply-Management Technical Evaluation Committee’s consideration of information about bidders’ past performance to identify gaps that allowed errors to occur, and implement a plan to correct those gaps.

- **Management Comments:** USAID agrees with the recommendation, and we outline below the actions we already have taken to address it. Nevertheless, we reject the inference in the draft report that minor errors committed during the evaluation of past performance might have compromised the validity or integrity of the selection process for the GHSC-PSM contract.

  Since the issuance of the GHSC-PSM contract in April 2015, M/OAA has updated ADS Chapter 302 and all Mandatory References that pertain to the evaluation and documentation of past-performance information. Additionally, USAID’s Contract Review Board (CRB), a panel composed of supervisory COs, the CRB Chairperson, a representative from the Divisions for Policy and/or Evaluation within M/OAA and the Office of the General Counsel, reviews the documentation for each major acquisition at various stages

throughout the procurement process to ensure errors do not occur to the greatest extent possible.

Completed Actions

ADS Chapter 302 and the CRB: According to ADS Chapter 302.3.4.4, some of the main objectives and expected benefits of the CRB are to assure the quality of USAID's acquisition actions. minimize the potential for sustainable protests, and strengthen the Agency's position to the extent possible in the event of future claims.

Since the award of the the GHSC-PSM contract, USAID has updated ADS Chapter 302.3.6.3 (Evaluation and Use of Contractor Past Performance and Integrity Information (CPII)) and ADS Mandatory Reference 302mbh (Policy Guide for Assessment and Use of Contractor Performance and Integrity Information [CPII]). Together, these provide policy, procedures, and additional guidance for using and documenting CPII. Specifically, Section 4.1.1 of ADS 302mbh states:

> "To ensure that an offeror without a record of relevant performance history is not evaluated favorably or unfavorably on past performance, the CO must determine and include in the solicitation the general approach that will be used to evaluate offerors with no relevant CPI [Contractor Performance Information].
>
> "In addition, following the requirements in [a Memorandum from the Office of Management and Budget (OMB)] dated July 10, 2014, the solicitation must describe the methodology for evaluating past-performance information, including the evaluation of similar work for State, local and foreign governments, commercial contracts and sub-contracts of similar size, scope and complexity.
>
> "COs should not, without good cause, combine past performance with corporate experience in the same evaluation criterion, since corporate experience is what the Offeror and its sub-contractors have done, while past performance is how well they did it."

Section 4.1.2 states that the CO must identify an individual involved in the source selection to obtain the past-performance information and provide it to the TEC. The policy states that this individual may be the contract specialist, a member of the TEC, or the CO.

The guidance further states that if the CO determines that the Contract Performance Assessment Reporting System does not contain sufficient data for a comparative evaluation, the CO has broad discretion to consider or authorize consideration of past performance information from other sources.

The policy also provides guidance on evaluating and documenting past performance information. When necessary, the TEC must consult the CO to determine the relevancy of past performance as a predictor of an Offeror's anticipated performance of the subject contract's requirements.

The TEC must document the results of its past-performance evaluation in the TEC Memorandum. This section of the TEC Memorandum must contain enough information for the CO to make informed decisions, and typically includes descriptions of the strengths and weaknesses of the offeror's performance, discussion of the analysis of performance and evidence of a reasonable and well-supported rationale for the conclusions reached. Additionally, the file must reflect how the TEC considered the relevance of similar past-performance information during the source-selection process, and in the award decision.

Finally the guidance states that the Division for Evaluation in M/OAA will monitor the use of past-performance information in source-selections through the oversight and review of pre-award contract files.

- **Target Completion Date:** USAID's Management Comments above describe how the Agency has developed and implemented guidance to help determine the completeness and accuracy of information about bidders' past performance to identify gaps that might have allowed errors to occur during the TEC's review of applications against the solicitation of the GHSC-PSM contract, and to implement a plan to correct any such gaps. USAID thus requests the OIG to close Recommendation 6 upon the issuance of its Final Report.

Recommendation 7: Develop and implement guidance to help Operating Units develop timelines for pre-procurement and procurement activities so that Operating Units understand the time requirements for steps in the procurement process.

- **Management Comments:** USAID agrees with the recommendation, and we outline below the actions we already have taken to address it.

ADS Chapters 300, 302, and 303, each updated since the issuance of the GHSC-PSM contract, describe the steps in the design process and offer robust guidance on the need for USAID's OUs to develop realistic Procurement Action Lead Times (PALTs) for their planned awards.

Completed Actions

The Agency has monitored average timelines for major procurements on an annual basis since 2010; they vary depending upon the complexity of the solicitation and award as well as the management of workload by M/OAA and OUs. Each CO, Activity Manager, and COR is responsible for managing individual timelines. Within USAID's Bureau for Global Health (GH), for example, this occurs through monthly reviews with M/OAA and the senior leadership of the Bureau.

ADS Chapter 300: Section 300.3.3, updated several times since the issuance of the GHSC-PSM contract (most recently in August 2020), states the following:

> "[COs/AOs] and technical offices must work together to establish realistic milestone schedules for full and open competitive actions of $10 million or more in the Agency A&A Plan and tailor them to fit the individual action. Technical offices must consult with the CO/AO on timing and realistic completion of the action. The CO/AO must consider all Agency priorities, feasibility of timeline, and other planned workload considerations The COs/AOs, in turn, will work with the cognizant project/technical staff on the dates that the CO/AO must enter for the solicitation through the award phase. The estimated typical time frames or PALTs for COs/AOs to award select actions are provided."

This same section of the ADS states that,

> "[T]he M Bureau will project and record the time frames related to such presolicitation items as activity/project approval and senior leadership SOAR reviews as part of the Global Acquisition and Assistance Milestones. The dates agreed to by the technical and program offices with their CO/AO on these items are considered pre-solicitation planning activities; also referred to as Pre-PALT dates. The M Bureau will also track and monitor these Pre-PALT dates as milestones, and they will be part of the Milestone Plan."[66]

The steps in each procurement are unique, and the amount of time to complete each step also varies. ADS Chapter 300.3.3 provides an average number of days to complete a procurement. However, it is up to the CO and the cognizant technical office(s) to determine the steps specific to, and required by, each procurement, as well as the amount of time required to complete each step to arrive at the total number of days required to complete a procurement, the PALT. In some instances, a procurement might require more (or less) time than that agreed upon by the relevant parties, because of the overarching factors noted above.

For the GHSC-PSM procurement, in a memorandum dated December 11, 2013, signed by the leadership of both M/OAA and GH in the spirit of ADS Chapter 300, both Offices agreed to an amended PALT of 426 days for the contract, not the original 381 days mentioned in the draft report. This memorandum also states that the dates are estimates, subject to adjustment as circumstances might dictate. The negotiation memorandum for this procurement also states that, "Based on previous states of the procurement process, the projected award date was March 20, 2015; however, delays in the [Acquisition and Assistance Review and Approval Document (AARAD), the predecessor to the SOAR] and legislative notification rendered a projected award date of April 10, 2015."

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[66] The draft OIG report states that

> "Current Agency policy (ADS 300.3.5 "Procurement Action Lead Time (PALT)") requires that two schedules should be prepared: one for presolicitation design activities (such as project approval and senior management reviews) and one for procurement activities starting with OAA's acceptance of a solicitation package from the technical office." (p. 25)

However, this statement is no longer in the ADS and the reference to ADS 300.3.5 is incorrect. There is not a requirement in the policy for two milestone schedules as the draft report suggests.

Finally, according to ADS Chapter 300.3.4, solicitations for all new acquisition and assistance awards (contracts, orders, grants, and cooperative agreements) require SOAR approval prior to release of the solicitation when their Total Estimated Cost/Amount, based on the independent Government cost estimate, is expected to be $20 million or more. ADS Chapter 300.3.4 details the SOAR process, including the estimated number of days for each step in the process.

A&A Strategy*:* USAID's *A&A Strategy*, released in December 2018 as part of the EPPR initiative, stresses the importance of connecting, and reducing the time from, design, procurement, and implementation. In fact, the *Strategy* states:

> "We will strongly encourage the formation of fully integrated project and activity design teams, to ensure that communication and operations are systematic and structured.
>
> "We will map the Agency's design processes [ADS 200 series] with our procurement processes (ADS 300 series). Through the mapping process, we will communicate how procurement fits within project and activity design and how project and activity design with procurement. Additionally, we will take steps toward co-locating procurement staff with technical teams in Washington, following the Mission model, and will encourage our planning staff to engage regularly with the leadership and procurement staff of operating units." (p. 7)

Our *A&A Strategy* also further states that USAID will link design and implementation through procurement approaches. In particular, it encourages the use of innovative techniques such as

> "Refine and Implement …This practice shortens the pre-award design and procurement process by engaging with a partner upon award, during the inception phase of an activity, to conduct baseline analyses and assessments that help refine programmatic objectives and milestones." (Page 8)

- **Target Completion Date:** USAID's Management Comments above describe how the Agency has developed and implemented guidance to help our OUs develop timelines for pre-procurement and procurement activities so they

understand the time requirements for steps in the procurement process. USAID thus requests the OIG to close Recommendation 7 upon the issuance of its Final Report.

Recommendation 8: Develop and implement a plan to assess the indicators used to measure the reliability and responsiveness of the supply chain for accurate representation of delivery dates, including reviewing the use of the early delivery reason code, the order promising tool, and any other tool that affects the measurement of this indicator.

- **Management Comments:** USAID agrees with the recommendation, and we outline below the actions we already have taken to address it.

Ongoing Actions

GH has established processes to assess the quality of the data reported against the indicators in the GHSC-PSM contract, ensure an accurate representation of the performance of the consortium led by Chemonics International, and review the use of management tools and processes that contribute to the contractor's performance. The Bureau's Global Health Supply-Chain (GHSC) MEL team, which consists of subject-matter experts who represent the four GHSC-PSM Task Orders, has a Terms of Reference (TOR) that describes the team's objectives, responsibilities, and procedures. The TOR applies to MEL for the GHSC-PSM project, as well as for other GHSC projects (Attachment 1).

The MEL team thoroughly reviews each GHSC-PSM quarterly and annual performance report to ensure the quality and transparency of its data. This process includes evaluating Key performance Indicators (KPIs) and targets related to the reliability and responsiveness of the contract's global supply chain (such as on-time delivery [OTD], on-time and in-full delivery [OTIF], and cycle time) to assess Chemonics' performance; and validating the KPIs for accuracy and consistency. The MEL team works closely with data analysts in GH across the Task Orders to identify and define performance problems and trends for follow-up and discussion with USAID's leadership and/or our field Missions. The MEL team also shares the draft performance reports throughout

GH and with all divisions in the GHSC-PSM consortium for broader comment and questions. The MEL team ensures Chemonics provides written responses to each question, and that the contractor makes updates to the final version of each report. On an annual basis the MEL team also reviews updates to the project's IDIQ Plan for Monitoring and Evaluation (M&E) and reviews targets for the coming Fiscal Year.[67] USAID will continue our review and assessment of relevant data and Chemonics' performance against the contarct's KPIs on a quarterly and annual basis, which will include the identification of data-quality problems for coordinated analysis and learning across the Task Orders.

Chemonics developed reason codes and the order promising tool (OPT) as supply-chain best practices to correct early operational challenges in the GHSC-PSM project, enhance decision-making, and improve reliability and visibility into the consortium's performance. USAID regularly monitors orders, lead times, and the use of reason codes under the contract. Each month, Chemonics requests approval from the CORs for the contract to apply certain reason codes that specifically require their approval. The CORs review each order's details, including the original agreed delivery date (ADD), proposed new ADD, reason code(s) for the new ADD, and the information used to support the request to apply the reason code. USAID's staff and the leadership of the GHSC-PSM consortium also determine when additional reason codes might be appropriate. GH has added a reason code that is specific to delays associated with the pandemic of manufacturer, quality-assurance, or logistics delays caused by the pandemic of COVID-19 that are outside of the consortium's immediate control.

Analysis of OPT: At the request of USAID, in early FY 2020 Chemonics completed a cross-Task Order analysis to evaluate the use of the OPT in setting ADDs. The GHSC MEL team within GH and the CORs for the contract vetted the evaluation. Based on the methods used in the analysis, USAID will conduct reviews of the OPT and its key assumptions every six months.

Completed Actions

Mid-Term Review of the GHSC-PSM Contract: Consistent with the established evaluation guidance in ADS Chapter 201.3.6.5, USAID commissioned an

[67] The GHSC-PSM IDIQ Monitoring and Evaluation Plan can be found at https://pdf.usaid.gov/pdf_docs/PA00WM9B.pdf.

independent cross-Task Order mid-term review of the consortium's performance under the GHSC-PSM contract, conducted by external consultants hired through the Global Health Program Cycle Improvement Project and the Global Health Technical Assistance Mission Support Project (GH-TAMS). The GHSC MEL team within GH prepared the review's SOW. An examination of Chemonics' performance data for the global supply-chain under the GHSC-PSM contract was a primary objective of the mid-term review, including the documentation, assessment, and validation of delivery-performance data from the project's start to the end of June 2019. The external review team used data from GHSC-PSM's Automated Requisition Tracking Management Information System (ARTMIS) and calculated the performance metrics by using methods documented in the project's M&E plan. Overall, the review found that the project met difficult targets, including for OTD and OTIF. The review was completed in February 2020. (See Footnote 1.)

Planned Actions

Independent Data-Quality Assessment (DQA): In September 2020, USAID initiated an independent DQA for the GHSC-PSM contract. An independent consultant team
sub-contracted under USAID's Global Health Evaluation and Learning Support award is conducting the DQA. The GHSC MEL team within GH prepared the review's SOW (Attachment 2). The DQA will look at a select set of KPIs under the GHSC-PSM contract (OTF, OTD, cycle time) across all Task Orders to (a) ensure that the quality of the monitoring information is sufficient for continued decision-making and reporting; (b) identify strengths and weaknesses in the data and improve data-management within the GHSC-PSM project; and, (c) help inform the data-quality parameters for NextGen. Consistent with the ADS Chapter 201.3.5.7 (Ensuring the Quality of Performance-Monitoring Data), the assessment will seek to determine the strengths and weaknesses of the indicator data by applying the five recognized data-quality standards of validity, integrity, precision, reliability, and timeliness.

Internal Semi-Annual Data-Quality Assurance Exercises: USAID is developing a plan to conduct semi-annual cross-Task Order assessments of specific metrics in the GHSC-PSM M&E plan. The assessments will use the Agency's data-quality standards outlined in ADS 201.3.5.7(a) and a standardized methodology

developed for immediate implementation. The plan for the cross-Task Order assessments will be finished by the end of December 2020, to take advantage of the independent DQA described above. Once completed, GH will implement the plan semiannually. USAID also will conduct assessments on any new metrics in the HSC-PSM contract's M&E plan, in compliance with ADS 201.3.5.7(b), to ensure Chemonics and its partners respect the tenets of data quality.

- **Target Completion Date:** USAID's Management Comments above document how the Agency assesses the indicators used to measure the reliability and responsiveness of the supply-chain managed by Chemonics and the GHSC-PSM consortium, focused on the accurate representation of delivery dates, including by reviewing the use of the early-delivery reason code, the OPT, and any other tool that affects the measurement of these indicators. USAID thus requests the OIG to close Recommendation 8 upon the issuance of its Final Report.

Recommendation 9: Work with Chemonics to conduct a review to determine the effectiveness and efficiency of regional distribution centers (RDCs) and implement a plan of action to correct any inefficiencies identified.

- **Management Comments:** USAID agrees with the recommendation, and we outline below the actions we already have taken to address it.

  USAID's review of the effectiveness and efficiency of RDCs under the GHSC-PSM contract and any consequent changes in the consortium's use of RDCs is an ongoing process. The Agency has implemented this review in a manner both consistent across Task Orders and tailored as needed to the specific needs of each Task Order, including during the period covered by the audit.

Ongoing Cross-Task Order Actions

Monitoring the Use of RDCs through the KPIs under the Contract: USAID included several performance metrics on RDCs in the GHSC-PSM M&E plan to allow us to review the effectiveness and efficiency of the proposed RDCs regularly. Soon after the predecessor project completed the transfer of inventory ownership in the fourth quarter of FY 2016 for voluntary family planning and

reproductive health and the first quarter of FY 2017 for HIV and malaria, GHSC-PSM started tracking the performance metrics for the RDCs and publishing their results in the project's quarterly and annual reports. GHSC-PSM reports on the contract's KPIs on a quarterly, semi-annual, and annual basis across all Task Orders, according to the requirements of the IDIQ. The contractually mandated RDC-relevant metrics include inventory turns; total landed cost; average percentage of shelf-life remaining; percentage of product lost because of expiry; and percentage of product lost to theft, damage, or other causes. The table below details the purpose, reporting frequency, and initiation of each KPI.

KPIs Used to Monitor the Effectiveness and Efficiency of RDCs under the GHSC-PSM Project

Indicator	**Purpose**	**Reporting Frequency**	**Reporting Initiation**
Inventory turns (*Average annual inventory turns*)	Indicates the number of times the inventory "turns over" in a year. Assesses cost-effectiveness and asset-management by evaluating the degree to which inventoried product is not sitting for too long in global stocks controlled by the GHSC-PSM consortium.	Annual	Fourth Quarter (Q4) of Fiscal Year (FY) 2017
Total landed cost (as a percentage of the total value of commodities delivered to recipients)	Refers to the total landed cost expressed as the amount of money (in U.S. Dollars) spent to deliver all commodities to customers, or as the total cost to deliver one USD of product. Is not only a function of operational efficiency but also a result of the supply-chain strategy employed to determine the optimal trade-off of cost, reliability, and responsiveness.	Semiannual	Q4 of FY 2017

Indicator	Purpose	Reporting Frequency	Reporting Initiation
Average percentage of shelf life remaining for warehoused commodities, weighted by the value of each commodity's stock (*Percentage of product at risk*)	A gauge of the amount of product that is at risk of expiration in a specified time. Measures warehouse efficiency.	Quarterly	First Quarter (Q1) of FY 2017
Percentage of product lost because of expiry while under the GHSC-PSM consortium's control (*Percentage of product lost*)	Tracks products lost because of expiry while under the control of the project in a warehouse controlled by GHSC-PSM, including RDCs and in-country warehouses. Monitors good warehouse and distribution practices, such as "first expired, first out" (FEFO).	Quarterly	Q4 of FY 2016
Percentage of product lost to theft, damage, or other causes, while under the GHSC-PSM consortium's control (*Percentage of product lost*)	Tracks products lost to theft, damage, or other causes while under the control of the project, whether in a warehouse controlled by GHSC-PSM, in transit to such a facility, or in transit to the customer, within a specified time.	Quarterly	Q4 of FY 2016

In addition to the contractually mandated reporting against the KPIs listed above, GHSC-PSM monitors RDC efficiency as measured by their performance in completing key routine tasks on a regular basis for all products:

- Service-Level Agreements (SLAs) for the RDCs require the accurate reporting of inventory on a daily basis with details on (1) allocated stock; (2) unallocated stock; (3) total inventory value; and, (4) utilization of storage space. Reporting occurs by stock-keeping unit (SKU), and includes details such as the description, quantity, batch, expiration, and shelf life of each product, and related details of each order to track the stock.

- Two additional, routine monitoring KPIs (not contractually mandated) relate to the performance of the RDCs, which USAID and the GHSC-PSM consortium review monthly: dock to stock (number of days for the RDC to complete the receipt process of delivered goods and make them available for allocation to GHSC-PSM) and outbound documentation (number of days for the RDC to provide GHSC-PSM with all required shipping documents to move products out of the RDC to the destination country).

Other cross-Task Order actions to monitor and review the use of RDCs by the GHSC-PSM consortium include the following:

Visits to RDCs: With the transfer of inventory ownership from the predecessor project (in the fourth quarter of FY 2016 for voluntary family planning and reproductive health and in the first quarter of FY 2017 for HIV and malaria), the GHSC-PSM consortium conducted a full inventory count. Since the transfer, Chemonics and its partners conduct cross-Task Order monitoring visits to the RDCs on an annual basis, which can include USAID staff. The visits check adherence to established processes, procedures, and guidelines, and typically include wall-to-wall full inventory counts to ensure accuracy. Staff from Chemonics' headquarters oversee and certify the inventory counts and ensure the adequate resolution of any discrepancies. In the future, GHSC-PSM and USAID will identify opportunities for greater participation by our staff in these visits and the inventory counts. Future

visits will include checks of predetermined metrics by both GHSC-PSM and USAID staff, to guarantee a separate verification of these metrics by both parties.

Use of independent auditors to validate management systems and physical stocks: Chemonics and USAID have agreed that the GHSC-PSM consortium will hire independent auditors to conduct validations of future contract-mandated annual stock counts. The validations will occur in conjunction with the annual visits to the RDCs and stock counts described above, and will provide an additional level of certainty to the monitoring of the RDCs' operations. Third-party entities will provide a neutral certification to complement the monitoring that the consortium provides. The most recent round of third-party audits took place between March and September 2019 and the next round is planned to begin in January or February 2021.

Using joint USAID-GHSC-PSM Technical Working Group 6 (Logistics) in the review of SLA reports and RDC performance: Technical Working Group 6 includes representatives from GH of the Task Orders that use the RDCs. GH has instructed GHSC-PSM to report on the SLA metrics to the Working Group, which has expanded its remit to include examining the RDCs as part of its reviews of global supply-chain operations under the contract. These expanded reviews began in August 2020 and will include a dashboard of monthly RDC SLA metrics.

Ongoing Actions Specific to Task Orders under the GHSC-PSM Contract

In addition to cross-Task Order actions for monitoring and reviewing the use of RDCs, the GH staff responsible for the Task Orders under the GHCS-PSM contract also conduct relevant activities tailored to their particular needs:

Task Order 1: Beginning in September 2017, USAID and staff from Chemonics who work on Task Order 1 under the GHSC-PSM contract have participated in biweekly technical meetings on the transition of first-line anti-retroviral medications (ARVs) under the President's Emergency Plan for AIDS Relief (PEPFAR) to review the status of ARVs at the RDCs, including stock at risk because of low shelf-life; incoming and outgoing stock for the RDCs; and central-level stock in

countries that might be at risk of running out. Chemonics and USAID work together to resolve stock problems at the RDCs, address stock challenges in countries, and determine when products stored at the RDCs can mitigate them.

Task Order 2: Task Order 2 under the GHSC-PSM contract provides USAID with a monthly report on inventories at the RDC that includes malaria-related stock quantities, expiration dates, information on the allocation of product, and incoming orders to the RDC. The Task Order's COR and USAID's malaria supply-chain team from the President's Malaria Initiative (PMI) review each report and follow up with Chemonics regarding any problems identified. GHSC-PSM has been providing these reports since December 2016.

Task Order 3: Since July 2016, Chemonics and USAID have conducted a monthly "Commodities Reconciliation Review" for Task Order 3. These reviews are a product-by-product examination of inventory for allocated and unallocated stock that includes quantity, value, and remaining shelf life (in months) for each product. The teams review expected country-level orders, as well as a summary of planned replenishments of the RDCs, and they identify key actions/recommendations. In addition, since the transition of inventory from the predecessor project in FY 2016, has provided quarterly reports on the medicines and commodities managed by the RDCs for GHSC-PSM Task Order 3 that include data on stock on hand, in quarantine, and in transit by quantity and value.

Reviews of the RDCs: Chemonics regularly conducts reviews specific to each Task Order under the GHSC-PSM contract to allow for the efficient and appropriate use of the RDCs. The reviews consider the specific needs and characteristics of different products (*e.g.*, easing of supply constraints for contraceptives, the stockpiling of antimalarial medicines before seasonal programs), as well as the different degrees of risk each Task Order can accept. USAID and Chemonics monitor for industry changes (*e.g.*, the introduction of vendor-managed inventory for a product), and determine if these changes should alter the use of RDCs for specific products.

- **Target Completion Date:** USAID's Management Comments above document how USAID reviews the effectiveness and efficiency of the RDCs under the GHSC-PSM contract and takes actions to correct any inefficiencies identified. USAID thus requests the OIG to close Recommendation 9 upon the issuance of its Final Report.

Recommendation 10: Train USAID activity managers to use the project's management information system for requisition order approval and monitoring responsibilities.

- **Management Comments:** USAID agrees with the recommendation, and we outline below the actions we already have taken to address it.

Completed Actions

On May 1, 2020, USAID issued a Technical Direction Memorandum (TDM) to Chemonics that requires it to ensure GH's relevant Activity Managers and Resident Advisors for PMI receive training in the use of ARTMIS to review, approve and track orders (Attachment 3). USAID and Chemonics will track completion of the training, which is a precondition to granting access to ARTMIS.

Chemonics now has made virtual training on ARTMIS available for all users, and 56 of the 56 target trainees have completed it. Chemonics has verified that all individuals who require access to approve requisition orders have completed the training. Seven additional users completed the training who require only reporting access. During this process, some individuals lost their access to the system because they no longer required it because their roles changed, or they left the Agency.

The TDM also requires that Chemonics provide annual refresher training, which will include any system updates, to all GH's relevant Activity Managers and Resident Advisors for PMI. The first refresher training has taken place. The relevant USAID staff must complete the annual refresher training by May 1 of each year to maintain access to ARTMIS. (In Calendar Year 2020, they must finish the training December 31 to maintain access.) Chemonics will track and report on a quarterly basis the number of GH's relevant Activity Managers and PMI's Resident Advisors who complete the refresher training.

- **Target Completion Date:** USAID's Management Comments above document how USAID is ensuring that GH's relevant Activity Managers and Resident Advisors for PMI receive training to use ARTMIS to approve requisition orders and fulfill their monitoring responsibilities. USAID thus requests the OIG to close Recommendation 10 upon the issuance of its Final Report.

Recommendation 11: Establish a timeframe for addressing the recommendation proposed by Bureau for Global Health leadership in 2018 on creation of a central supply-chain unit and set target dates for the implementation of accepted changes.

- **Management Comments:** USAID agrees with the recommendation, and we outline below the actions we already have taken to address it.

Completed Actions

In 2018, with assistance from an independent facilitator and change-management expert, GH undertook an assessment of its organizational structure and staffing needs to improve its management of the GHSC-PSM contract. The team that led the review included the CORs and AORs for the Bureau's GHSC projects, including the CORs for the GHSC-PSM IDIQ and Task Orders; Division/Branch Chiefs for GH's supply-chain teams; and the U.S. Global Malaria Coordinator. Other staff from the Burau were involved at various points in the process.

The process revealed important areas of consensus:

- Stronger cross-GH coordination of certain functions is needed, including M&E, risk-management, communications, and strategic visioning;

- The GH supply-chain teams exist to support health programs that differ in their strategic emphases and work according to different governance and funding structures, so any organizational model to strengthen cross-Bureau coordination from a central location within GH must respect and support these realities; and

- A central "unit" should neither duplicate functions held by the existing supply-chain teams or GH Offices, nor act as an additional level of bureaucracy or hierarchy.

Building from these areas of consensus, the process assessed alternative structures, including management and governance options, to strengthen the Bureau's management of the current and future GHSC programs. Two models emerged for consideration by GH's leadership – a single supply-chain coordinator or a unit of three to five people with expertise in areas such as risk-management, M&E, communications, and data analytics.

GH has adopted the second model. Implementation began by establishing and recruiting for the position of GH Supply-Chain Senior Officer (Supervisory Public Health Advisor) (Attachment 4). The incumbent for this position started on September 14, 2020, and reports to a Deputy Assistant Administrator in GH's Front Office. The Senior Officer has responsibility for coordinating GHSC-related reporting and communications, strategic planning, risk-management, and M&E. The Senior Officer serves as a technical resource to enhance the work of the GH supply-chain teams; improve the design of future GHSC programs; coordinate the award of, and transition to, NextGen; and provide other leadership for the current and future GHSC programs. The Senior Officer will establish and lead a new Supply-Chain Node within GH's Front Office, which will consist of two to three individuals to ensure effective coordination across GH's supply-chain teams and programmatic components, one of whom will be a Supply-Chain Risk-Management (SCRM) Advisor. The target date for staffing the Supply-Chain Node is June 1, 2021.

The Supply-Chain Node will work in concert with established management structures and processes in GH that have proven useful for management of GHSC activities and the GHSC-PSM contract. These include the Supply-Chain Leadership Team (SCLT), cross-office technical working groups, coordinated country back-stopping by health programs, regular meetings of the CORs for the GHSC-PSM contract with staff from Chemonics, and weekly meetings among GH's supply-chain teams and biweekly meetings of their heads with the Bureau's leadership.

The actions taken by GH will (a) create a single, overarching structure that coordinates supply-chain-related functions across the Bureau's supply-chain

teams; (b) enhance the work of the these supply-chain teams as they perform under their respective strategic mandates and governance (accountability) and funding structures; and, (c) enhance the Bureau's ability to communicate in a single voice in such critical areas as supply-chain reporting and risk-management.

- **Target Completion Date:** June 1, 2021.

Recommendation 12: Establish a timeframe for addressing the recommendation proposed by management consultants in 2019 on risk-mitigation issues and set target dates for the implementation of accepted changes.

- **Management Comments:** USAID agrees with the recommendation, and we outline below the actions we already have taken to address it, along with additional, forthcoming steps.

Ongoing and Planned Actions

GH has begun to address the consultants' recommendation to establish a robust supply-chain risk-management process, by building on USAID's three-tier corporate ERM approach at the Agency, Bureau, and Mission levels. At the Agency level, USAID relies on our Policy Framework, "Ending the Need for Foreign Assistance," and our ERM Program.[68] At the Bureau level, GH uses its Global Health Results Framework and risk profile. At the Mission level, the Agency depends on each OU's *Country Development Cooperation Strategy* and individual risk profile.

Building a Supply-Chain Risk-Management Team: As described in the Management Comments for Recommendation 11, GH is establishing a Supply-Chain Node, which will include a SCRM Advisor for the Bureau. Each of the Offices within GH that is managing supply-chain activities is hiring dedicated staff with SCRM responsibilities. For example, the Malaria Division in the Office of Infectious Diseases hired a Supply-Chain Risk Advisor, who started work on July 6, 2020. The Office of Population and Reproductive Health has also hired a Supply-Chain Advisor responsible for SCRM, and the Office of HIV/AIDS is in the final stages of recruiting a Risk Manager. Together, these

[68] See https://www.usaid.gov/sites/default/files/documents/1870/WEB_PF_Full_Report_FINAL_10Apr2019.pdf and https://www.usaid.gov/policy/risk-appetite-statement.

positions will form GH's SCRM Team, coordinated by the SCRM Advisor, charged wth supporting USAID's Missions and partners to identify, prioritize, mitigate, and monitor supply-chain risks systematically.

Mission SCRM Teams (January 2021): Just as GH is establishing a SCRM Team at USAID headquarters, the Agency will create SCRM Teams at a number of our Missions, each of which will include a Supply-Chain Activity Manager(s) and Risk-Management Liaison. Over the course of FY 2021, GH will roll out the SCRM model developed by the consultant to each Mission and facilitate its completion to identify and prioritize supply-chain risks on a country-specific basis. The SCRM model will be a living document, owned by each Mission's SCRM Team, which will be responsible for updating it and sending it to GH's SCRM Team on a quarterly basis. Each Mission's SCRM Team will present significant supply-chain risks to their OU's Management Council for Risk and Internal Control (MCRIC) for inclusion on the Mission's Risk Profile.

SCRM Risk Registry (February 2021): Based on how each Mission completes the SCRM model, GH's SCRM Team will consolidate risks across countries on a SCRM Risk Registry and focus its efforts on the most-common risks. The GH SCRM Team will present these significant supply-chain risks to the Bureau's MCRIC for inclusion on GH's Risk Profile. In turn, GH will present significant supply-chain risks to the Agency's Risk-Management Council to review and consider sending them to the Agency's Executive Management Council on Risk and Internal Control for inclusion on USAID's corporate Risk Profile.

SCRM Toolkit (March 2021): The GH SCRM Team will develop a SCRM Toolkit, also called a "Playbook," to address common supply-chain risks and provide means to address them. The purpose of the SCRM Playbook is to systematize the process for identifying, assessing, responding to, and anticipating supply-chain risks of any type. The Playbook establishes a standardized and collaborative step-by-step process for managing risk for everyone in the organization to follow. The steps in the Playbook will link to templates, SCRM audit tools and checklists, and other SCRM "assets" to ensure the necessary implementation tools are readily available to users. The SCRM

Playbook also will provide common risk-management approaches and indicators to guide the design of new supply-chain awards.

SCRM Awards: GH has included two supply-chain risk-management awards as part of NextGen. (See USAID's business forecast, usaid.gov/business-forecast,). GH made the first award, the Supply-Chain Security Contract, on October 1, 2020. This contract focuses on detecting diverted and falsified health products and putting in place measures to limit the illicit trade of medicines and health products. The contract includes support for in-country capacity-building for national institutions to assume these functions. The second planned award is broader and will focus on identifying and mitigating upstream and downstream supply-chain vulnerabilities and potential risks. USAID anticipates making this award by November 2021.

- **Target Completion Date:** June 1, 2021.

Recommendation 13: Require USAID activity managers to use the project's management information system for requisition order approval and discontinue the use of proxy approvals.

- **Management Comments:** USAID agrees with the recommendation, and we outline below the actions we already have taken to address it.

Completed Actions

The TDM mentioned above requires that Chemonics develop and implement a plan to require GH's relevant supply-chain Activity Managers and PMI's Resident Advisors to use ARTMIS to approve requisition orders digitally. The TDM requires that Chemonics discontinue the systematic use of stand-alone Excel spreadsheet trackers for the sole purpose of allowing GH's Activity Managers to obtain order information that is available in ARTMIS. The few exceptions TDM describes the few exceptions allowed. GH and Chemonics shared the TDM with the relevant Activity Managers and PMI's Resident Advisers, and advised them on June 1, 2020, that they must approve all orders digitally through ARTMIS (Attachment 5).

- **Target Completion Date:** USAID's Management Comments above document how the Agency now requires the relevant Activity Managers in GH to use the MIS for the GHSC-PSM project to approve requisition orders and discontinue the use of proxy approvals. USAID thus requests the OIG to close Recommendation 13 upon the issuance of its Final Report.

Recommendation 14: Work with Chemonics to complete an assessment of the organizational structure and staffing needs to manage the GHSC-PSM project.

- **Management Comments:** USAID agrees with the recommendation, and we outline below the actions we already have taken to address it.

Ongoing Actions

As noted in the draft report, after pressure from USAID, Chemonics undertook several major changes in its management of the GHSC-PSM contract early in the project to address its performance deficiencies, including by terminating several senior executives. The latest restructuring cited in the draft report took place in 2017 (though the period covered by the audit extends through November 2019). No additional significant restructurings have proven necessary since.

USAID's CORs for the GHSC-PSM contract review the project's organizational structure on an annual basis when Chemonics submits its headquarters work plan. The consortium delivered its most-recent work plan on October 15, 2020. The CORs reviewed the organogram in the work plan and did not identify any vacancies in key personnel or leadership positions. The organogram did show a number of other open positions across the project, and the CORs pressed Chemonics to commit to filling them. Chemonics confirmed that it and its partners in the consortium have the leadership resources needed to implement the program successfully, and that the current vacancies have not affected its performance.

As part of this review process, USAID's CORs and Chemonics discuss skill sets that might be needed but that the current organogram for GHSC-PSM does not reflect. With USAID's approval, Chemonics may repurpose, revise, and/or update positions to meet the needs of the contract. For example, USAID's CORs are currently assessing with Chemonics how to strengthen the project's

MEL activities, specifically by creating additional MEL positions. GH also reviews Chemonics' staffing plan for each Task Order under the IDIQ continuously for opportunities to strengthen activities in specific areas. Our emphasis at the moment is on the collection and analysis of data, supply-planning, and coordination among donors.

- **Target Completion Date:** USAID's Management Comments above document how the Agency is working with Chemonics on an ongoing basis to assess the organizational structure and staffing needs of the GHSC-PSM consortium to manage the project. USAID thus requests the OIG to close Recommendation 13 upon the issuance of its Final Report.

APPENDIX C. AGENCY COMMENTS (REVISED)

TO: Global and Strategic Audits Division, Director, Van Nguyen

FROM: Kerry Pelzman, Acting Assistant Administrator,
Bureau for Global Health /s/
Mark Walther, Director, Office of Acquisition and Assistance,
Bureau for Management /s/

DATE: January 29, 2021

SUBJECT: Management Comment(s) to Respond to the Draft Audit Report Produced by the Office of Inspector General (OIG) titled, *Award Planning and Oversight Weaknesses Impeded Performance of USAID's Largest Global Health Supply Chain Project* (9-000-21-00X-P)

The U.S. Agency for International Development (USAID) would like to thank the Office of Inspector General (OIG) for the opportunity to provide comments on the subject draft report.

USAID agrees that the process of designing the contract for the Global Health Supply Chain - Procurement and Supply Management (GHSC-PSM) was imperfect. Both the General Accounting Office and the Court of Federal Appeals, however, validated the award process. We also concur that the performance of the winning consortium led by Chemonics International during its first 18 months of implementing the contract was uneven. The GHSC-PSM contract is the largest acquisition award in the history of USAID, and it could, and should, have been done better.

Nevertheless, we assert that the OIG has based certain key findings in draft report 9-000-21-00X-P on incomplete data and information. We believe that the attached Management Comments and supporting evidence show that, in accordance with the Federal Acquisition Regulations and sound procurement management principles, USAID did undertake thoughtful and deliberative (although not perfect) processes during the design, solicitation, evaluation, and award of the GHSC-PSM project, and has exercised close management and oversight of the contract. The consortium that is implementing the contract is performing far better now than it did three years ago, because of intense engagement by Agency staff.

Over the past two-and-a-half years, USAID has used the insights offered by the OIG and external stakeholders to re-examine the premises behind the GHSC-PSM project. Previous recommendations from the OIG and our own market research have convinced us that we need a different design for the follow-on to GHSC-PSM, which we are calling our Next-Generation Global Health Supply Chain Suite of Programs (NextGen). As shown in the Requests for Information we have published here, the architecture for NextGen incorporates lessons learned from our current Health-related supply chain program, including the GHSC-PSM project, and addresses directly many of the concerns raised in the OIG's draft report. Most important, the design of NextGen segments global procurement and logistics by health program and supply category into separate contracts. This fundamental shift acknowledges the unique requirements of USAID's different health programs and the medicines and health commodities they need to purchase, and builds in prudent redundancy as a risk mitigation measure. The design also consolidates health areas into central contracts for functions for which we see alignment in priorities, which will mitigate such risks as duplicate costs and mismatched activities between programs. These awards will cover quality assurance, in-country logistics, technical assistance, and a "control tower" for the whole program. The control tower will enhance the Agency's oversight capabilities for the new program significantly by providing end-to-end visibility into NextGen's operations and access to a single source of information across all activities for tracking and managing problems, generating management dashboards and reports, and supporting monitoring and evaluation. NextGen also will incorporate other activities to enhance our oversight of the program and the performance of the contractors, including one or more new awards expressly dedicated to the management of supply chain risk for all of NextGen.

USAID agrees with all 14 recommendations in draft report 9-000-21-00X-P, and already has made significant progress in implementing them. Therefore, the Agency requests that the OIG close all of the recommendations upon issuing the Final Report for this engagement.

COMMENTS BY THE U.S. AGENCY FOR INTERNATIONAL DEVELOPMENT (USAID) ON THE DRAFT AUDIT REPORT PRODUCED BY THE USAID OFFICE OF INSPECTOR GENERAL (OIG) TITLED, *AWARD PLANNING AND OVERSIGHT WEAKNESSES IMPEDED PERFORMANCE OF USAID'S LARGEST GLOBAL HEALTH SUPPLY CHAIN PROJECT* (9-000-21-00X-P)

Introduction

Please find below the Management Comments by the U.S. Agency for International Development (USAID) on draft report 9-000-21-00X-P produced by the Office of Inspector General (OIG), which contains 14 recommendations for the Agency.

USAID agrees that the process of designing the contract for the Global Health Supply Chain - Procurement and Supply Management (GHSC-PSM) project was imperfect. Both the General Accounting Office and the Court of Federal Appeals, however, have validated the award process. We also concur that the performance of the winning consortium led by Chemonics International during its first 18 months of implementing the contract was uneven. The GHSC-PSM contract is the largest acquisition award in the history of USAID, and it could, and should, have been done it better.

Nevertheless, we assert that the OIG has based certain key findings in draft report 9-000-21-00X-P on incomplete data and information. With regard to the first objective of the audit, to "assess how USAID's GHSC-PSM contract was designed and awarded," in accordance with the Federal Acquisition Regulations, the Agency did undertake thoughtful and deliberative (although not perfect) processes during the design, solicitation, evaluation, and award of the contract during the period from 2013 to 2015. We reject the implication in the draft report that minor errors committed in the evaluation of past performance during the award process might have undermined the validity or integrity of the selection process.

With regard to the second audit objective, to "determine whether USAID managed the GHSC-PSM contract to provide for accurate and timely delivery of commodities to selected host countries," in accordance with Federal management-control principles, the Agency has exercised close management and oversight of the GHSC-PSM contract, which has led to significant performance improvements that Chemonics International and its partners have sustained. The consortium that is implementing the contract is performing far better now than it did three years ago, because of intense, engagement by Agency staff.

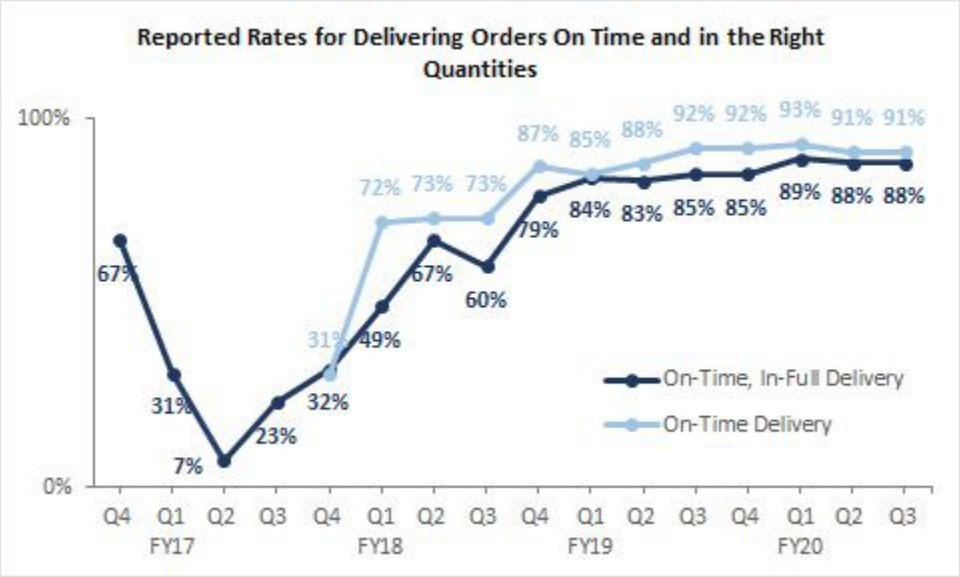
USAID took a series of actions during the period of the audit (June 2010 - January 2016 for Objective One; January 2016 - November 2019 for Objective Two) and subsequently to improve our policies, systems, processes, and tools for planning awards and overseeing contracts. We highlight these improvements (completed and planned), many of which responded to recommendations by the OIG in other audit reports, in the following sections.

USAID agrees with the 14 recommendations in draft report 9-000-21-00X-P, and already has made significant progress in implementing them. Therefore, the Agency requests that the OIG close all of the recommendations upon issuing the Final Report for this engagement.

Technical Comments from the U.S. Agency for International Development on Draft Report 9-000-21-00X-P

1. Updating Progress Against Key Performance Indicators in the Contract for the Global Health Supply Chain - Procurement and Supply Management (GHSC-PSM) Project

Draft report 9-000-21-00X-P covers the period from January 2016 through November 2019, for Objective 1 of the audit. The document presents data for the contract's Key Performance Indicators (KPIs) of on-time delivery (OTD) and on-time, in-full delivery (OTIF) only from the fourth quarter of Fiscal Year (FY) 2016 through the fourth quarter of FY 2018 (Figure 3 in the draft report). Below please find updated data to show the performance of the GHSC-PSM consortium led by Chemonics International through the third quarter of FY 2020:



The draft audit report states in the present tense that "more oversight is needed to improve timeliness and contractor performance" (Page 25). While USAID agrees that greater oversight was necessary at the beginning of the contract, the report's assertion is misleading. When the Bureau for Global Health (GH) learned at the beginning of Calendar Year (CY) 2017 that Chemonics International and its partners were falling far short of the contract's KPIs, it began to apply considerable pressure on the consortium. This oversight resulted in a management shake-up at Chemonics and increased, high-level attention to the contract's performance within the entire Agency, not just GH.

The updated data for OTD and OTIF above show the results of this work. USAID's oversight of the GHSC-PSM contract has ensured that the consortium made sustained improvements in its performance during the period covered by the audit, which has trended upwards in the last 18 months. Since the first quarter of FY 2019, the consortium's performance has exceeded the contract's required targets consistently and achieved an average OTD of 90 percent. OTIF has had a similar positive trajectory.[69]

2. Order Promising Tool and Early-Delivery Reason Code

A bottom-line conclusion in draft report 9-000-21-00X-P is the following:

> "Two tools [the order promising tool (OPT) and early-delivery reason code] introduced to improve predictability and reliability affected what could be counted as on time, hindering the Agency's ability to determine the extent to which its reported results reflected improvements in performance" (p. 25).

This conclusion is misleading, for the following reasons:

- Among the foremost concerns for any supply chain is the reliability and predictability of its commitments to customers. OTD and OTIF are measures of a supply chain's ability to meet these commitments. In response to USAID's oversight concerns, Chemonics introduced the OPT in October 2018 to improve the reliability and predictability of Chemonics' commitments (*i.e.*, agreed delivery dates) to USAID's overseas Missions and their country partners. The improvements in OTD and OTIF are demonstrable and clearly show that the GHSC-PSM consortium has developed a more reliable and predictable ability to meet its commitments, the purpose of creating the OPT. The draft report offers no substantive evidence to suggest that the introduction of the OPT was anything but a measure to improve actual performance and that the reported results are anything but real. Supply chains continuously improve their processes and tools to drive better performance. These changes do not render less real the measured improvements that result.

- A cornerstone of the draft report's analysis of the use of the OPT and early-delivery reason code is that the longer lead times adopted by the GHSC-PSM consortium do "not require Chemonics to set ambitious agreed delivery dates

[69] Recent data for OTD and OTIF takes into account USAID-authorized use of a new reason code for COVID-related impacts on delivery times.

[ADDs] that may better meet customer expectations" (Page 41). USAID engaged early in the GHSC-PSM project with Chemonics on lead times and requested more realistic estimates. The consortium adopted new estimated lead times as part of the OPT upon its introduction in October 2018. Draft report 9-000-21-00X-P states that "no one in USAID approved" the changes that lengthened estimated lead times. This statement is incomplete and misleading. USAID has conducted reviews of lead times, including during the period covered by the audit. Most reviews of the GHSC-PSM contract within GH take place at the level of Task Order (TO) to account for the specific product characteristics and processes that affect lead times. Overall, these reviews have not demonstrated that the lead times used by the GHSC-PSM consortium have been inappropriately long. The following paragraphs present detailed analysis of lead times under each of the contract's TOs:

TO 1: As a programmatic imperative, USAID's staff that work on the supply chain for HIV under the President's Emergency Plan for AIDS Relief have engaged closely with Chemonics on cycle time, which includes lead time, since the beginning of the project in 2016. On multiple occasions, the Office of the U.S. Global AIDS Coordinator (OGAC) has made changes in PEPFAR's guidelines for prevention and treatment that have led to major shifts in the products USAID requires GHSC-PSM to procure and deliver. Examples are a switch in global anti-retroviral (ARV) medications for adults in 2017, the phase-out of all Nevirapine treatment products in 2018, and expanding the use of pre-exposure prophylaxis (PrEP). These product changes have required the teams at GH and Chemonics to focus continually on product cycle time and lead time to implement changes in treatment regimens in ways that minimize disruption to PEPFAR-funded programs in the field. USAID's oversight of cycle and lead times for purchase orders under TO 1 has evolved into several formal, product-specific reviews held with Chemonics on a regular basis. Most recently, USAID added a formal review for tuberculosis-related products.

TO 2: USAID has reviewed purchase orders under TO 2 on a biweekly basis since the start of the GHSC-PSM project. Among other things, these reviews flag those orders that exceed the estimated lead times for each step in the transaction to ensure that Chemonics and its partners can take any appropriate corrective actions. When Chemonics is ready to place purchase orders with suppliers, USAID again reviews the lead

time used in the OPT, which includes the lead times for the steps from the placement of an order to delivery in country.

In addition, USAID has required GHSC-PSM to prepare lead-time tables for malaria medicines and commodities on an annual basis since the start of the project. GH's supply chain team under the President's Malaria Initiative (PMI) reviews these lead-time tables, which GHSC-PSM then revises before the U.S. Global Malaria Coordinator includes them in PMI's annual guidance for Malaria Operational Plans (MOPs) sent to our country teams to assist them in planning their orders.

In March 2019, USAID conducted a review of planned lead times and actual cycle times for malaria medicines and commodities for the second quarter of FY 2018 through the first quarter of FY 2019 and compared them against those for malaria drugs and commodities purchased by the Global Fund to Fight AIDS, Tuberculosis, and Malaria (Global Fund). The review found that GHSC-PSM's lead times are only slightly longer (zero to four months, depending on the medicine or commodity) than Global Fund's, because of differences in the processing and financing of orders. The goal of this exercise was to identify the differences in lead times between donors so as to communicate between them, and with Ministries of Health, the appropriate lead times to use when placing orders from each donor.

In January and February 2020, USAID conducted an analysis of purchase orders under TO 2 that compared the lead times estimated by GHSC-PSM for segments in the order process (*e.g.*, order clarification, quality-assurance testing, manufacturing) to the corresponding actual cycle times as the orders moved through the segments. The analysis found that actual cycle times for many segments tended to be longer than the estimated lead times for these segments, which indicates that GHSC-PSM's lead times are not inappropriately long, but are shorter than the actual lead times. As further argued below, GHSC-PSM's lead times are not overly conservative, and indeed might be underestimated because of external factors that can intervene in the order process and are difficult to predict with any reliability in the operating environment typical in developing countries. Draft report 9-000-21-00X-P acknowledges these factors (Page 26), which can include, for example, manufacturers'

production problems and uncertainty over when GHSC-PSM receives new funding each Fiscal Year.

TO 3: In FY 2018, USAID conducted a detailed analysis of lead times set by
GHSC-PSM for TO 3 through the life of the project, including those estimated by using the OPT. This evaluation found that the lead times estimated by GHSC-PSM b using the tool were very similar to those used by the predecessor USAID | DELIVER PROJECT (DELIVER) for 91 percent of purchase orders. The instances in which GHSC-PSM's lead times were longer than those of DELIVER coincided with known global commodity shortages. In addition, USAID compared ADDs based on GHSC-PSM's lead times to Mission-requested delivery dates and found that, for 75 percent of the orders, the ADDs were within a month of the requested delivery date. For about 19 percent of the orders, the delivery dates requested by the Missions were unrealistic, based on the transportation time from the supplier or regional distribution center (RDC) to the destination country.

In FY 2019, USAID conducted another analysis jointly with GHSC-PSM to review the OPT and ascertain the reliability of the lead times set for TO 3 by using the tool. The evaluation found that lead times set by the tool were within 1.5 weeks of the actual cycle time for a majority of the orders, which demonstrates improved reliability and predictability of performance. Instances in which a GHSC-PSM procurement specialist had to revise the lead times set by the tool corresponded with commodity shortages.

Finally, and most recently, all of the TOs receive a weekly risk report related to COVID-19 from GHSC-PSM that documents which orders the pandemic has affected and where, from order to delivery. This report includes the requested delivery date, ADD, and estimated delivery date for products across all TOs under the GHSC-PSM contract, along with a calculation to show the difference between the estimated and ADDs. USAID thereby has greater visibility into the specific impact of COVID-19 on orders and their lead times. These reports will continue until the normalization of global operations.

- Draft report 9-000-21-00X-P states that the use of longer lead times has created "a gap between USAID's expectations and the project's promised delivery dates for commodities." The "gap," however, is not well-substantiated, nor shown to be meaningful. Almost two-thirds of surveyed staff at USAID's Missions stated that lead times were either accurate or ambitious, or had no opinion (Page 29). The draft report only documents one case in which a Mission expressed its opinion that lead times were overly conservative (Page 29). The document does not provide similar data from comparable supply chain organizations and does not point to industry standards or practice in general to suggest that the leads times used by Chemonics have been overly conservative for the kinds of products that it procures and for the kinds of operating environments in which it must deliver these products. (See above for such an analysis done by USAID.) Most significantly, the draft report acknowledges that "[The OIG] did not evaluate the reasonableness of USAID's requested delivery dates" (p. 30). Without an evaluation of the reasonableness of our Missions' expectations, it is impossible to determine whether "gaps" between these expectations and GHSC-PSM's promised delivery dates are because of overly conservative lead times and/or unreasonable expectations. The draft report clearly favors the former, without an evaluation of the latter possibility. USAID believes, and the reviews described above support, that GHSC-PSM's lead times have been appropriate given the manifold uncertainties in the operating environments in developing countries and the factors beyond the control of either USAID or Chemonics that can lengthen lead times substantially (which the draft report acknowledges on Page 26). When Chemonics has been able to exceed its ADD commitments with early deliveries, despite the uncertainties and factors beyond its control, this result represents an actual improvement in performance.

- A concluding statement in draft report 9-000-21-00X-P reiterates, with additions, the bottom-line conclusion quoted above by stating the following:

  > "Because these changes [use of the OPT and early-delivery reason code] to the implementer's internal processes were made concurrently with other mitigating measures designed to improve performance, the Agency cannot determine the extent to which its reported results reflect actual improvements in performance" (pp. 30-31).

  This is a logical fallacy. That USAID took several mitigating measures to improve Chemonics' performance, in addition to the OPT and early-delivery reason code, has little to do with the question of whether the reported results

reflect actual performance improvements. More to the point, because the Agency implemented other steps to boost Chemonics' performance that the audit did not examine (as the draft report acknowledges on Page 27), one cannot dissect the specific effects of the OPT and early-delivery reason code on the performance of the consortium adequately. This is a fundamental weakness in the audit's methodology. The lack of any assessment of the other mitigating measures USAID undertook confounds any attempt to define a line of sight from the OPT and early-delivery reason code to performance improvements by GHSC-PSM. All the OIG can say is that these tools contributed to actual performance improvements, but we cannot define the exact nature and magnitude of their effect.

- Finally, an independent mid-term review of the GHSC-PSM project completed in February 2020, conducted by experts in supply chains and monitoring and evaluation, verified that "after a weak start, GHSC-PSM met difficult targets, including on-time delivery and on-time in-full delivery" (Page *iii*)[70]. The review team saw no reason to question whether the achievement of these targets was real and demonstrable and observed that:

  > "On-time, in-full delivery (OTIF) and on-time delivery (OTD) show steady improvement, such that GHSC-PSM is currently either meeting or exceeding its targets. To achieve this improvement, GHSC-PSM and Chemonics leadership worked closely with USAID to make critical management and operational changes. An action plan with USAID was developed, reported on, and completed" (Page *xii*).

The Use of Regional Distribution Centers (RDCs)

Draft report 9-000-21-00X-P highlights that "RDCs were not used as proposed" in the network-optimization model developed by Chemonics with USAID early in the GHSC-PSM project. It is true that the actual use of RDCs was lower than originally modelled. However, as the draft report acknowledges, the audit did not analyze why Chemonics fulfilled orders directly from suppliers rather from the RDCs. Further, the aim of effective supply chain management is to begin with a model and dynamically adjust actual practice as real circumstances dictate, not to make the supply chain work according to the model. USAID, Chemonics and the partners in the GHSC-PSM consortium make decisions about how to fulfill orders on a case-by-case basis and take into account a range

[70] The mid-term review of the GHSC-PSM project can be found at https://dec.usaid.gov/dec/content/Detail_Presto.aspx?vID=47&ctID=ODVhZjk4NWQtM2YyMi00YjRmLTkxNjktZTcxMjM 2NDBmY2Uy&rID=NTYwMzYw.

of factors that are subject to constant flux, including changes in supply availability and global demand. The OIG should not expect USAID or Chemonics to make decisions on the procurement of medicines and medical commodities to fulfill a predetermined model.

The draft report critiques the Agency's lack of monitoring of the use of RDC during the period covered by the audit (January 2016 - November 2019), by stating that "USAID did not know how much the centers were being used" (Page 31). This statement is misleading. Since the start of the GHSC-PSM project, USAID and Chemonics developed and implemented processes and tools to monitor and adjust the use and performance of RDCs by using contractually mandated KPIs and through routine monitoring activities. USAID's Management Comments to Recommendation 9 below detail these actions further.

Evaluation of Past Performance during the Award of the GHSC-PSM Contract

Draft report 9-000-21-00X-P critiques the assessment of information on past performance during the award of the GHSC-PSM project. The report states that the Contracting Officer (CO) responsible for completing the award for GHSC-PSM did not address certain comments from USAID's Contract Review Board (CRB), documented in the notes from its meeting in July 2014, and suggests a consequent failure or gap in a component of the Agency's procurement process (Page 26). The CRB's relevant comment states in its entirety:

> "The CRB checked the summary statements below the headings against the past performance matrices provided for review and found inconsistencies between the statements and what is actually contained in the matrices. Please conduct a close review of all the statements contained in the narratives against what is actually reflected in the matrices to ensure they are consistent and can be supported."

The draft report contends that the CO did not address this mandatory comment, and implies that the oversight compromised the integrity of the procurement. However, the CRB's comment referred to the summary statements only, not all statements initially included in the memorandum from the Technical Evaluation Committee (TEC) that reviewed the proposals received under the solicitation for the contract. The summary statements were removed from the TEC memo, and the CRB's comment was resolved, as confirmed in the pre-award meeting of the CRB meeting (its final session, which took place in February 2015), during which the CRB reviewed the "CO's response to [the CRB's] Minutes from the Competitive Range review, conducted on July 31, 2014

('CO's Response to CRB Minutes')." The CRB's notes related to its review of this document states that it "adequately addressed" all of the comments from the CRB's meeting in July 2014.

The draft report also notes that transcription errors occurred during the past-performance evaluation of proposals for the GHSC-PSM award. The TEC reviewed the proposals according to six factors, weighted in descending order from most important to least important. Past performance was the fifth. Moreover, the past-performance factor included six sub-factors that were equally important. It is important to note that, because of the low weight of these sub-factors in the evaluation process overall, even had the TEC or CRB caught or corrected the errors, the revised result would not have had a significant effect on the overall rating of Chemonics' proposal or the source-selection decision made by the CO.

Management Comments from the U.S. Agency for International Development on the Recommendations of the Office of Inspector General in Draft Report 9-000-21-00X-P

Recommendation 1: Revise policy to clarify the role and the extent of involvement of the Contracting Officer on a project Design Team to ensure compliance with the Federal Acquisition Regulation.

- **Management Comments:** The U.S. Agency for International Development (USAID) agrees with the recommendation, and we outline below the actions we already have taken to address it.

Completed Actions

Two Chapters of USAID's Automated Directives System (ADS)[71], which details the policies and procedures that guide the Agency's programs and operations, are relevant to this recommendation. Since USAID let the Global Health Supply Chain — Procurement and Supply Management (GHSC-PSM) contract in April 2015, the Agency has updated ADS Chapters 201 and 300, each of which explains the role and extent of involvement of the Contracting Officer (CO). ADS Chapter 201, Operational Policy for the Program Cycle, discusses "USAID's operational model for planning, delivering, assessing, and adapting development programming in a given region or country to advance U.S. foreign policy." ADS Chapter 300, Acquisition and Assistance Planning, details our "policy directives, required procedures, and internal guidance for the planning of USAID direct Acquisition and Assistance (A&A) activities." These revised Chapters highlight the roles of the CO and the Office of Acquisition and Assistance (OAA) within the Bureau for Management (M), as described below.

ADS Chapter 201: Section 201.2 describes the responsibility of M/OAA to provide primary leadership in communicating and advising how the Agency can leverage our broad range of A&A instruments to achieve outcomes throughout the Program Cycle. Section 201.3.4.1 (Roles in the Design and Implementation of Activities), states that,

[71] The ADS is publicly available at https://www.usaid.gov/who-we-are/agency-policy.

> "The design and implementation of activities is a core interdisciplinary function that requires skills and expertise that span organizational and functional boundaries. [Operating Units] therefore should promote efficient and constructive interactions between key offices and functions to ensure alignment and consistency among the technical, legal, budgetary, and managerial facets of each activity."

This Section further states that the CO serves as a business advisor to provide guidance on how our Missions can achieve intended results with the Agency's broad range of A&A mechanisms; reviews supporting solicitation documents prepared by each Design Team and makes the final determination on the selection of instrument; ensures that Statements of Work (SOWs) or Objectives (SOOs), Program Descriptions, and other A&A documents are consistent with the selected type of instrument; solicits, negotiates, awards, and administers A&A awards; delegates certain award-management responsibilities to designated Contracting Officer's Representatives/Agreement Officer's Representatives (CORs/AORs); and advises CORs/AORs during implementation on how to make programmatic adjustments where necessary to enable adaptive management, all in accordance with their delegated authority and within applicable statutes, regulations, and policies.

ADS Chapter 300: Updated Section 300.3.3 states:

> "The program and technical offices must include their CO/[Agreement Officer (AO)] in the design stage of their actions. If the design stage identifies that [information technology (IT)] or IT resources are required in support of a contract, the program and technical offices must contact [the Office of the Chief Information Officer (CIO) in the M Bureau] at ITAuthorization@usaid.gov to pre-vet requirements and obtain conditional approval to proceed. The program and technical offices must also submit draft documentation with all applicable timeframes (for example, when the activity/project will be approved, when the [SOW], including evaluation criteria, instructions to offerors/applicants and an independent Federal Government cost estimate, will be provided) to the CO/AO, as early as possible in the planning process. The

COs/AOs, in turn, will work with the cognizant project/technical staff on the dates that the CO/AO must enter for the solicitation through the award phase."

- **Target Completion Date:** The Agency's Management Comments above describe how the updated Chapters of the ADS document the role and the extent of involvement of the CO on a Design Team for a project or activity to ensure compliance with the Federal Acquisition Regulation (FAR). USAID thus requests that the Office of Inspector General (OIG) close Recommendation 1 upon the issuance of its Final Report.

Recommendation 2: Develop and implement guidance outlining the minimum supporting documentation required for key decisions influencing the design of an award.

- **Management Comments:** USAID agrees with the recommendation, and we outline below the actions we already have taken to address it.

Completed Actions

As stated in ADS Chapter *300*:

> "Federal and Agency regulations and directives, including [Part 7.102 of the FAR] and ADS [Chapter] 201, Program Cycle Operational Policy, require advance planning for Agency A&A awards. In particular for acquisition, the FAR requires all U.S. Government Departments and Agencies to perform acquisition planning and conduct market research to ensure that the Government meets its needs in the most effective, economical, and timely manner possible. Similar planning for assistance is also essential. The Agency A&A Plan is USAID's business system for A&A planning."

ADS Chapters 201.3.4.5 1 and 300,3,5 together detail USAID's A&A design process, including the required documentation. These elements include the Project Development Document; analyses and reviews to inform the Activity Description (see below); the Project Plan for Monitoring, Evaluation, and Learning; the Selection-of-Instrument Memorandum and supporting documents; the Individual Acquisition Plan (if required); market research; the Activity

Description (Scope of Work, Performance Work Statement, SOW or SOO, or Program Descriptions); Independent Government Cost Estimate; other requisition documents needed for the Global Acquisition and Assistance System; and other design-related documents that detail deliverables, instructions to bidders, criteria for evaluating proposals, a branding and marking plan consistent with USAID's standards; the Checklist of Inherently Governmental Functions; climate-risk assessment; the Initial Environmental Examination; gender analysis; the Public Financial-Management Risk Assessment Framework (if applicable); any waivers or special clearances; and the Senior Obligation Alignment Review (SOAR) Documents, as applicable.[72]

Additionally, ADS Chapter 300.3.5.1 (Small Business Review) requires a review by USAID's Office of Small and Disadvantaged Business Utilization (OSDBU) of all planned acquisitions in excess of $25,000, with some exceptions. The CO must complete Small Business Review Form 1410-14 to obtain OSDBU's concurrence for the proposed acquisition strategy.

USAID has additional documentation requirements related to the use of IT in a planned award, which include a review by the Agency's CIO. The Agency must perform market research in accordance with Part 10 of the FAR for all acquisitions that include IT. If custom development of an IT solution is necessary, the Agency must address how it determined that no existing solutions are available to meet the requirement.

Finally, in addition to the required documentation described above, ADS Chapter 300.3.8 (Agency A&A Templates for Technical Officers and Contracting Professionals) outlines the mandatory templates that Design Teams and AOs/COs must use to document decisions throughout the processes of planning, solicitation, and evaluation.

- **Target Completion Date:** The Agency's Management Comments above describe how the updated ADS Chapter provides guidance that outlines the minimum supporting documentation required for key decisions that influence the design of an award. USAID thus requests that the OIG close Recommendation 2 upon the issuance of its Final Report.

[72] The Project Development Document (PDD) replaces the Project Appraisal Document (PAD). The GHSC-PSM project was approved under a PAD.

Recommendation 3: Develop and implement guidance to help prepare risk assessments, mitigation plans, and plans during project design that take into account the consequences of failing to achieve goals in accordance with the Federal Acquisition Regulation.

- **Management Comments:** USAID agrees with the recommendation, and we outline below the actions we already have taken to address it.

  USAID initially awarded the Indefinite-Delivery/Indefinite-Quantity (IDIQ) contract for the GHSC-PSM program in April 2015. USAID has made significant strides in addressing risk in our portfolio of investments since that time. During the course of the last five years, USAID has updated our ADS policies related to the design of projects and activities and the management of risk and issued additional guidance, including on Enterprise Risk Management (ERM), that addresses assessing and mitigating risk in more detail. In response to revisions to Circular A-123 made by the Office of Management and Budget in 2016, USAID and other Federal Departments and Agencies have had to integrate ERM into all of our work. ERM also requires that all USAID's Missions and Washington Operating Units (OUs) complete a Risk Profile each year.

  Completed Actions

  ADS 201: ADS Chapter 201, substantially revised on October 28, 2020, addresses the analysis and mitigation of risk through the design process and through the use of monitoring, evaluation, and learning. Updated Section 201.3.2.15 focuses on the Performance Management Plan (PMP), a key tool for mitigating risk used through the planning and managing processes that include the evaluation of performance and impact as well as learning and collaborating from evidence. ADS Chapter 201 outlines the content of the PMP and highlights its importance in collecting data on performance indicators. The PMP also must include an evaluation plan that identifies all evaluations performed at the Mission or Washington OU level during the life of a project or activity.

  Section 201.3.4 describes the many factors that OUs should consider during the process of designing an activity and awarding a grant, cooperative agreement, or contract. One such consideration is supporting innovation, co-creation, and/or co-design. Codified in USAID's program-design policy, such approaches

also are the centerpiece of USAID's *A&A Strategy*. Specifically, the *Strategy* encourages incentivizing and strengthening USAID's engagement with the private sector, with a focus on how USAID and our partners together will determine in the design phase both the shared reward and the risk of an activity.

Section 201.3.5 outlines in great detail USAID's policy for monitoring performance. The ADS Chapter describes the types of programmatic monitoring that the Agency's OUs must conduct to ensure implementation is on track. The Chapter also requires that OUs conduct context-monitoring to track local conditions that could directly or indirectly affect the implementation and performance of their awards. It outlines the types of indicators; the selection of indicators; how to change indicators; baselines; targets; disaggregation; how to store and use data; and the quality of the data, including data quality assessments.

In similar fashion, updated Section 201.3.6 addresses the principles of evaluation; the various types of evaluations; the requirements for evaluations; the planning, implementation, reporting, and use of the evaluation. Section 201.3.7 addresses collaboration, learning, and adapting (CLA), which brings together the components of USAID's entire Program Cycle. Similar to the sections on monitoring and evaluation, the CLA policies in Section 201 describe planning for, and approaches to, CLA.

Agency Supplemental Guidance: In addition to our updates to ADS Chapter *201* in July 2019 USAID released a Technical Note titled, "Enterprise Risk Management in the Program Cycle." This document serves as supplemental guidance to ADS Chapter 201 and identifies risk throughout USAID's Program Cycle, including the design and implementation of activities.[73] The note specifically states that, "Flexible, iterative design is explicitly encouraged in both the Risk Appetite Statement and the Agency's 2018 [*A&A Strategy*]. The guidance encourages our Missions to "design activities less prescriptively and more collaboratively." Procurement processes that feature flexible, iterative and collaborative design of

[73] The technical note can be found at: (https://pages.usaid.gov/system/files/erm_in_the_program_cycle_-_ads_201_technical_note.pdf). The Program Cycle is USAID's operational model for planning, delivering, assessing, and adapting development programming in a given region or country to advance U.S. foreign policy. It encompasses guidance and procedures for: 1) making strategic decisions at the regional or country level about programmatic areas of focus and associated resources; 2) designing projects and activities to implement strategic plans; and 3) learning from performance monitoring, evaluations, and other relevant sources of information to make course corrections and inform future programming, as needed.

activities support ERM by facilitating our ability to respond to risks and seize opportunities.

The Technical Note also discusses the importance of ERM in the design and implementation of activities and suggests questions OUs should ask throughout the process. It also identifies documents in which to memorialize ERM and innovation throughout the design process, by building on what ADS Chapter 201 codifies and advises on conducting certain risk analyses and implementing mitigation measures. The Technical Note highlights the SOAR process, which requires planners to articulate the most compelling risks and opportunities of a proposed activity.

The Technical Note further highlights and addresses the risk mitigation tools available during the design and implementation of activities, which include the following:

- "The NUPAS [Non-U.S. Organization Pre-Award Survey] ... a tool to mitigate the fiduciary risk of new non-governmental partners";

- "The Organizational Capacity Assessment (OCA) and the Organizational Performance Index … both tools to help [AORs] identify and mitigate some of the programmatic risk aspects of new, untried implementing partners related to their technical capacity constraints";

- The Stage II PRMRAF [Public Financial-Management Risk Assessment Framework] Risk Mitigation Plan [which] outlines a government-to-government (G2G) activity's specific fiduciary risks and describes the corresponding mitigation measures that will be taken

- The use of third-party monitoring … [to] mitigate the risk of not being able to monitor activities in non-permission environments."

Expanding on ADS Chapter 201.3.5, Section 6 of the Technical Note further expands on the importance of monitoring, evaluation, and learning (MEL) plans. It notes that MEL plans for projects and activities capture potential risks to achieving measurable results, and reflect USAID's strategic priorities.

Effective Partnering and Procurement Reform (EPPR)[74]*:* While anticipating every possible risk under a project or activity is not possible, USAID has recognized the need to address risk in our portfolio through redoing the way we do business. In our *A&A Strategy*, USAID has dedicated itself to adopting[75]

> "pay-for-results approaches (performance-based, development impact bonds, or use of milestone payments), as often as practicable, and in some cases as a component of otherwise cost-reimbursement awards, as a way to encourage more accountability, distribute risk, and focus on measurable outcomes." (p. 6)

Furthermore, our *A&A Strategy* also emphasizes shifting

> "the training and responsibilities of [CORs]/AORs from only ensuring compliance to focusing on performance management and adaptive partnering with an emphasis on appropriate risk management, on time M&E plans, regular site visits, and consistent, real-time interaction with partners at all levels." (p. 11)

Additionally, USAID is focusing on

> "empowering and equipping our employees to exercise sound business judgment, solve problems, and address risks as opposed to relying on prescriptive organizational structures and policies to attempt to ensure homogenized, low-risk responses." (p. 12)

The FAR: Part 49 of the FAR and its associated contract clauses allow the U.S. Government to terminate contracts, either partially or completely, either for default or for convenience. According to Part 49.4 of the FAR, the U.S. Government may terminate a contract for default because of a contractor's actual or anticipated failure to perform its contractual obligations.

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[74] See https://www.usaid.gov/eppr.

[75] USAID's A&A Strategy can be found at https://www.usaid.gov/sites/default/files/documents/1868/AA-Strategy-02-04-19.pdf.

- **Target Completion Date:** USAID's Management Comments above describe how the Agency has developed and implemented guidance to help prepare risk assessments and risk mitigation plans during the design of projects and activities that take into account the consequences of failing to achieve our goals, in accordance with the FAR. USAID thus requests that the OIG close Recommendation 3 upon the issuance of its Final Report.

Recommendation 4: Develop and implement guidance to help address heightened risks posed by the use of single-source awards, specifically the increased potential for award protests, underperformance by the sole implementer, and lack of competition, in pre-award risk assessments.

- **Management Comments:** USAID agrees with the recommendation, and we outline below the actions we already have taken to address it.

  Over the past two-and-a-half years, USAID has used the insights offered by the OIG and external stakeholders to re-examine the premises behind the GHSC-PSM project. Previous recommendations from the OIG and our own market research have convinced us that we need a different design for the follow-on to GSC-PSM, which we are calling our Next-Generation Global Health Supply Chain Suite of Programs (NextGen). As shown in the Requests for Information we have published here, the architecture for NextGen incorporates lessons learned from our current Health-related supply chain program, including the GHSC-PSM project, and addresses directly many of the concerns raised in the OIG's draft report.

  Because of the corporate reputational and financial exposure of the GHSC-PSM award, USAID added it as a specific, stand-alone entry on the Agency's Risk Profile, the only instrument in the Agency's portfolio so listed.

  In addition, we have made significant changes to Agency policy that respond to Recommendation 4 in draft report 9-000-21-00X-P. We also released USAID's first *A&A Strategy*, which promotes pay-for-results approaches, performance management, and adaptive partnering with an emphasis on appropriate risk management.

  We believe all of the measures mentioned above and laid out in more detail below are discouraging the use of single-award IDIQs, in line with the OIG's

recommendation. A review of the 227 IDIQ awards made by USAID between FY 2015 and FY 2020 shows that only 37 were single-award contracts.

Completed Actions

*FAR***:** As noted in the draft report, Part 16.504(c) of the FAR expresses a preference for multiple-award IDIQs over single-award IDIQs. Part 16.504(c)(ii)(C) of the FAR states that a Department or Agency must document the decision to use a single-award IDIQ. The decision to use a single-award IDIQ also should comply with Part 16.504(c)(ii)(B) o the FAR, which states that a Department or Agency must not use a multiple-award IDIQ in the following instances:

1. Only one contractor is capable of providing performance at the level of quality required because the supplies or services are unique or highly specialized;
2. Based on the [CO]'s knowledge of the market, more favorable terms and conditions, including pricing, will be provided if a single award is made;
3. The expected cost of administration of multiple contracts outweighs the expected benefits of making multiple awards;
4. The projected Task Orders are so integrally related that only a single contractor can reasonably perform the work;
5. The total estimated value of the contract is less than the simplified acquisition threshold; or
6. Multiple awards would not be in the best interests of the Government.

ADS Chapter 302: ADS Chapter 302.3.4.6, updated in November 2020, also reaffirms in USAID policy the FAR's preference for multiple-award IDIQs, highlights the risks of single-award IDIQs, and further states:

> "However, under some circumstances, single-award indefinite-quantity contracts may be appropriate. As required by [Part 16.504(c) of the] FAR, the [CO] must document the decision whether or not to use multiple awards in the acquisition plan or contract file....

no task or delivery order contract in an amount estimated to exceed $100 million (including all options) may be awarded to a single source unless the head of the agency makes a determination in writing. The Administrator has delegated the authority to make this determination to the Director [of] M/OAA."

In July 2014, after the finalization of the Individual Acquisition Plan (IAP) for the GHSC-PSM contract in February 2014, USAID updates the Mandatory Reference to ADS Chapters 300 and 302 titled "Acquisition Planning for Indefinite Delivery Indefinite Quantity Contracts and Task Orders." This document provides considerations and requirements for appropriately documenting the rationale in IAPs to support the use of IDIQs, including single-award IDIQs and Task Orders beneath them.

ADS Chapter 201 and ERM: The risk assessment and risk mitigation measures as well as ERM outlined under our Management Comment to Recommendation 3 also apply to the planning of single-award IDIQs and the decision to issue a Task Order under a single-award IDIQ.

EPPR: As described above under our Management Comment to Recommendation 3, the Agency's EPPR reforms address the need to address risk better in our projects. The approaches outlined in the Agency's first *A&A Strategy* apply to a variety of contracting mechanisms, including single award IDIQs and Task Orders beneath them.

- **Target Completion Date:** USAID's Management Comments above describe how the Agency has developed and implemented guidance to help address the heightened risks posed by the use of single-source awards, specifically the increased potential for award protests, underperformance by the sole implementer, and lack of competition, in pre-award risk assessments. USAID thus requests that the OIG close Recommendation 4 upon the issuance of its Final Report.

Recommendation 5: Develop and implement guidance to help evaluate proposed management information systems by verifying system capabilities, such as by requesting case studies.

- **Management Comments:** USAID agrees with the recommendation, and we outline below the actions we already have taken to address it.

USAID recognizes that additional guidance and a greater role by the Office of the Agency's CIO in the M Bureau during the design of this award, which occurred prior to April 2015, would have been beneficial. While the requirements for management-information systems (MIS) are unique to each procurement, in response to greater mandates and oversight related to IT across the U.S. Government, USAID has significantly revised and updated the relevant Chapters of the ADS to incorporate and address IT requirements in our awards.

Completed Actions

ADS Chapter 300: According to ADS Chapter 300, the Agency's SOAR process mandates that the CIO review all procurements in excess of $40 million. The policy specifically requires the CIO's approval for a proposed award if the grant, cooperative agreement, or contract will include IT for use by the Agency's staff. ADS Mandatory Reference 300sab, Frequently Asked Questions, expands on the criteria for determining whether an award falls within the scope of this approval requirement. These factors include the following:

> "(1) [W]hether the Agency owns the IT; (2) how Agency personnel use the IT; (3) whether Federal information is collected, maintained, or processed; (4) what the Agency's rights to, and restrictions with, the data are; (5) whether the IT is interconnected to an Agency system; (6) what the purpose of the contract is; and, (7) what role the IT plays in the delivery of product and/or services under the contract."

- *ADS Chapter 509:* Section 509.3.4.2 requires our CIO's review and approval of all acquisitions or Inter-Agency Agreements (such as those used to support purchases through another Department or Agency) that include IT (see ADS 300) at the strategy, plan, or requirement level (as described in Part 7 of the FAR). The expanded role and involvement of USAID's CIO in procurements is the best way to evaluate the capabilities of a proposed MIS. According to Section 509.3.2.3, M/CIO will provide input and advice to do the following:
    - "Explore the best approaches for leveraging technologies in international development and humanitarian programs and enhancing evidence-based decisions;

- "Minimize duplication across the Agency of IT investments required to support program-related activities, such as monitoring, evaluation, and collaborative learning and adapting; and

- "Ensure decision-makers at the Agency clearly understand the business needs for IT solutions and take an enterprise approach to drive effective and cost-efficient IT resource use."

Furthermore, Section 509.3.2.3 states the following:

> "B/IOs [Bureaus/Independent Offices] with large IT spending (*e.g.*, $5 million or more annually), including Program-funded IT resources, must develop an IT strategic plan (ITSP). B/IOs must engage M/CIO in the IT strategic-planning process and ensure their ITSP aligns with the Agency's ITSP."

ADS Chapter 547: ADS Mandatory Reference 547maa (Limits on Custom-Developed Software) includes guidance on the special award requirements for the procurement of custom-developed software, as follows:

> "If the B/IO [or Mission] has determined that there is no existing software solution and that the Agency must acquire custom software, and M/CIO has approved the request, the acquisition planner, in coordination with the Contracting Officer, must:
>
> 1. Ensure that the Agency has appropriate data rights to the custom developed code by including the standard intellectual-property clauses [52.227-14] and/or other custom clauses where required. Contracting Officers must consult with the cognizant Regional Legal Officer or General Counsel to ensure the inclusion of appropriate clauses.
> 2. Include the source code and other appropriate documentation as a deliverable under the award, specifying format, and ensure that a copy is sent to M/CIO upon application release.
> 3. Include a requirement in the award that the software must be developed as Open-Source Software (OSS), unless M/CIO determines that an open-source license would have a detrimental impact on Agency Operations.

> "The Contracting Officer must not solicit for or enter into an award including a requirement for custom-developed software for Agency use without confirming that the required approvals have been received and that the solicitation and award address the requirements above. M/CIO is responsible for maintaining a code inventory that lists all new custom-developed code and making that inventory available to other Federal [Departments and] Agencies, unless an exception is approved."

- **Target Completion Date:** USAID's Management Comments above describe how the Agency has developed and implemented guidance to help evaluate proposed MIS by verifying the systems' capabilities. USAID thus requests the OIG to close Recommendation 5 upon the issuance of its Final Report.

Recommendation 6: Conduct a review of the verification process used to determine the completeness and accuracy of the Global Health Supply Chain – Procurement and Supply-Management Technical Evaluation Committee's consideration of information about bidders' past performance to identify gaps that allowed errors to occur, and implement a plan to correct those gaps.

- **Management Comments:** USAID agrees with the recommendation, and we outline below the actions we already have taken to address it. Nevertheless, we reject the inference in the draft report that minor errors committed during the evaluation of past performance might have compromised the validity or integrity of the selection process for the GHSC-PSM contract.

  Since the issuance of the GHSC-PSM contract in April 2015, M/OAA has updated ADS Chapter 302 and all Mandatory References that pertain to the evaluation and documentation of past-performance information. Additionally, USAID's Contract Review Board (CRB), a panel composed of supervisory COs, the CRB Chairperson, a representative from the Divisions for Policy and/or Evaluation within M/OAA and the Office of the General Counsel, reviews the documentation for each major acquisition at various stages throughout the procurement process to ensure errors do not occur to the greatest extent possible.

Completed Actions

ADS Chapter 302 and the CRB: According to ADS Chapter 302.3.4.4, some of the main objectives and expected benefits of the CRB are to assure the quality of USAID's acquisition actions. minimize the potential for sustainable protests, and strengthen the Agency's position to the extent possible in the event of future claims.

Since the award of the the GHSC-PSM contract, USAID has updated ADS Chapter 302.3.6.3 (Evaluation and Use of Contractor Past Performance and Integrity Information (CPII)) and ADS Mandatory Reference 302mbh (Policy Guide for Assessment and Use of Contractor Performance and Integrity Information [CPII]). Together, these provide policy, procedures, and additional guidance for using and documenting CPII. Specifically, Section 4.1.1 of ADS 302mbh states:

> "To ensure that an offeror without a record of relevant performance history is not evaluated favorably or unfavorably on past performance, the CO must determine and include in the solicitation the general approach that will be used to evaluate offerors with no relevant CPI [Contractor Performance Information].
>
> "In addition, following the requirements in [a Memorandum from the Office of Management and Budget (OMB)] dated July 10, 2014, the solicitation must describe the methodology for evaluating past-performance information, including the evaluation of similar work for State, local and foreign governments, commercial contracts and sub-contracts of similar size, scope and complexity.
>
> "COs should not, without good cause, combine past performance with corporate experience in the same evaluation criterion, since corporate experience is what the Offeror and its sub-contractors have done, while past performance is how well they did it."

Section 4.1.2 states that the CO must identify an individual involved in the source selection to obtain the past-performance information and provide it to the TEC. The policy states that this individual may be the contract specialist, a member of the TEC, or the CO.

The guidance further states that if the CO determines that the Contract Performance Assessment Reporting System does not contain sufficient data for a comparative evaluation, the CO has broad discretion to consider or authorize consideration of past performance information from other sources.

The policy also provides guidance on evaluating and documenting past performance information. When necessary, the TEC must consult the CO to determine the relevancy of past performance as a predictor of an Offeror's anticipated performance of the subject contract's requirements.

The TEC must document the results of its past-performance evaluation in the TEC Memorandum. This section of the TEC Memorandum must contain enough information for the CO to make informed decisions, and typically includes descriptions of the strengths and weaknesses of the offeror's performance, discussion of the analysis of performance and evidence of a reasonable and well-supported rationale for the conclusions reached. Additionally, the file must reflect how the TEC considered the relevance of similar past-performance information during the source-selection process, and in the award decision.

Finally the guidance states that the Division for Evaluation in M/OAA will monitor the use of past-performance information in source-selections through the oversight and review of pre-award contract files.

- **Target Completion Date:** USAID's Management Comments above describe how the Agency has developed and implemented guidance to help determine the completeness and accuracy of information about bidders' past performance to identify gaps that might have allowed errors to occur during the TEC's review of applications against the solicitation of the GHSC-PSM contract, and to implement a plan to correct any such gaps. USAID thus requests the OIG to close Recommendation 6 upon the issuance of its Final Report.

Recommendation 7: Develop and implement guidance to help Operating Units develop timelines for pre-procurement and procurement activities so that Operating Units understand the time requirements for steps in the procurement process.

- **Management Comments:** USAID agrees with the recommendation, and we outline below the actions we already have taken to address it.

ADS Chapters 300, 302, and 303, each updated since the issuance of the GHSC-PSM contract, describe the steps in the design process and offer robust guidance on the need for USAID's OUs to develop realistic Procurement Action Lead Times (PALTs) for their planned awards.

Completed Actions

The Agency has monitored average timelines for major procurements on an annual basis since 2010; they vary depending upon the complexity of the solicitation and award as well as the management of workload by M/OAA and OUs. Each CO, Activity Manager, and COR is responsible for managing individual timelines. Within USAID's Bureau for Global Health (GH), for example, this occurs through monthly reviews with M/OAA and the senior leadership of the Bureau.

ADS Chapter 300: Section 300.3.3, updated several times since the issuance of the GHSC-PSM contract (most recently in August 2020), states the following:

> "[COs/AOs] and technical offices must work together to establish realistic milestone schedules for full and open competitive actions of $10 million or more in the Agency A&A Plan and tailor them to fit the individual action. Technical offices must consult with the CO/AO on timing and realistic completion of the action. The CO/AO must consider all Agency priorities, feasibility of timeline, and other planned workload considerations. The COs/AOs, in turn, will work with the cognizant project/technical staff on the dates that the CO/AO must enter for the solicitation through the award phase. The estimated typical time frames or PALTs for COs/AOs to award select actions are provided."

This same section of the ADS states that,

> "[T]he M Bureau will project and record the time frames related to such presolicitation items as activity/project approval and senior leadership SOAR reviews as part of the Global Acquisition and Assistance

> Milestones. The dates agreed to by the technical and program offices with their CO/AO on these items are considered pre-solicitation planning activities; also referred to as Pre-PALT dates. The M Bureau will also track and monitor these Pre-PALT dates as milestones, and they will be part of the Milestone Plan."[76]

The steps in each procurement are unique, and the amount of time to complete each step also varies. ADS Chapter 300.3.3 provides an average number of days to complete a procurement. However, it is up to the CO and the cognizant technical office(s) to determine the steps specific to, and required by, each procurement, as well as the amount of time required to complete each step to arrive at the total number of days required to complete a procurement, the PALT. In some instances, a procurement might require more (or less) time than that agreed upon by the relevant parties, because of the overarching factors noted above.

Finally, according to ADS Chapter 300.3.4, solicitations for all new acquisition and assistance awards (contracts, orders, grants, and cooperative agreements) require SOAR approval prior to release of the solicitation when their Total Estimated Cost/Amount, based on the independent Government cost estimate, is expected to be $20 million or more. ADS Chapter 300.3.4 details the SOAR process, including the estimated number of days for each step in the process.

A&A Strategy*:* USAID's *A&A Strategy*, released in December 2018 as part of the EPPR initiative, stresses the importance of connecting, and reducing the time from, design, procurement, and implementation. In fact, the *Strategy* states:

> "We will strongly encourage the formation of fully integrated project and activity design teams, to ensure that communication and operations are systematic and structured.

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[76] The draft OIG report states that

> "Current Agency policy (ADS 300.3.5 "Procurement Action Lead Time (PALT)") requires that two schedules should be prepared: one for presolicitation design activities (such as project approval and senior management reviews) and one for procurement activities starting with OAA's acceptance of a solicitation package from the technical office." (p. 25)

However, this statement is no longer in the ADS and the reference to ADS 300.3.5 is incorrect. There is not a requirement in the policy for two milestone schedules as the draft report suggests.

> "We will map the Agency's design processes [ADS 200 series] with our procurement processes (ADS 300 series). Through the mapping process, we will communicate how procurement fits within project and activity design and how project and activity design with procurement. Additionally, we will take steps toward co-locating procurement staff with technical teams in Washington, following the Mission model, and will encourage our planning staff to engage regularly with the leadership and procurement staff of operating units." (p. 7)

Our *A&A Strategy* also further states that USAID will link design and implementation through procurement approaches. In particular, it encourages the use of innovative techniques such as

> "Refine and Implement …This practice shortens the pre-award design and procurement process by engaging with a partner upon award, during the inception phase of an activity, to conduct baseline analyses and assessments that help refine programmatic objectives and milestones." (Page 8)

- **Target Completion Date:** USAID's Management Comments above describe how the Agency has developed and implemented guidance to help our OUs develop timelines for pre-procurement and procurement activities so they understand the time requirements for steps in the procurement process. USAID thus requests the OIG to close Recommendation 7 upon the issuance of its Final Report.

Recommendation 8: Develop and implement a plan to assess the indicators used to measure the reliability and responsiveness of the supply chain for accurate representation of delivery dates, including reviewing the use of the early delivery reason code, the order promising tool, and any other tool that affects the measurement of this indicator.

- **Management Comments:** USAID agrees with the recommendation, and we outline below the actions we already have taken to address it.

Ongoing Actions

GH has established processes to assess the quality of the data reported against the indicators in the GHSC-PSM contract, ensure an accurate representation of the performance of the consortium led by Chemonics International, and review the use of management tools and processes that contribute to the contractor's performance. The Bureau's Global Health Supply Chain (GHSC) MEL team, which consists of subject-matter experts who represent the four GHSC-PSM Task Orders, has a Terms of Reference (TOR) that describes the team's objectives, responsibilities, and procedures. The TOR applies to MEL for the GHSC-PSM project, as well as for other GHSC projects (Attachment 1).

The MEL team thoroughly reviews each GHSC-PSM quarterly and annual performance report to ensure the quality and transparency of its data. This process includes evaluating Key performance Indicators (KPIs) and targets related to the reliability and responsiveness of the contract's global supply chain (such as on-time delivery [OTD], on-time and in-full delivery [OTIF], and cycle time) to assess Chemonics' performance; and validating the KPIs for accuracy and consistency. The MEL team works closely with data analysts in GH across the Task Orders to identify and define performance problems and trends for follow-up and discussion with USAID's leadership and/or our field Missions. The MEL team also shares the draft performance reports throughout GH and with all divisions in the GHSC-PSM consortium for broader comment and questions. The MEL team ensures Chemonics provides written responses to each question, and that the contractor makes updates to the final version of each report. On an annual basis the MEL team also reviews updates to the project's IDIQ Plan for Monitoring and Evaluation (M&E) and reviews targets for the coming Fiscal Year.[77] USAID will continue our review and assessment of relevant data and Chemonics' performance against the contract's KPIs on a quarterly and annual basis, which will include the identification of data quality problems for coordinated analysis and learning across the Task Orders.

Chemonics developed reason codes and the order promising tool (OPT) as supply chain best practices to correct early operational challenges in the GHSC-PSM project, enhance decision-making, and improve reliability and visibility into the consortium's performance. USAID regularly monitors orders, lead times, and the use of reason codes under the contract. Each

[77] The GHSC-PSM IDIQ Monitoring and Evaluation Plan can be found at https://pdf.usaid.gov/pdf_docs/PA00WM9B.pdf.

month, Chemonics requests approval from the CORs for the contract to apply certain reason codes that specifically require their approval. The CORs review each order's details, including the original agreed delivery date (ADD), proposed new ADD, reason code(s) for the new ADD, and the information used to support the request to apply the reason code. USAID's staff and the leadership of the GHSC-PSM consortium also determine when additional reason codes might be appropriate. GH has added a reason code that is specific to delays associated with the pandemic of manufacturer, quality assurance, or logistics delays caused by the pandemic of COVID-19 that are outside of the consortium's immediate control.

Analysis of OPT: At the request of USAID, in early FY 2020 Chemonics completed a cross-Task Order analysis to evaluate the use of the OPT in setting ADDs. The GHSC MEL team within GH and the CORs for the contract vetted the evaluation. Based on the methods used in the analysis, USAID will conduct reviews of the OPT and its key assumptions every six months.

Completed Actions

Mid-Term Review of the GHSC-PSM Contract: Consistent with the established evaluation guidance in ADS Chapter 201.3.6.5, USAID commissioned an independent cross-Task Order mid-term review of the consortium's performance under the GHSC-PSM contract, conducted by external consultants hired through the Global Health Program Cycle Improvement Project and the Global Health Technical Assistance Mission Support Project (GH-TAMS). The GHSC MEL team within GH prepared the review's SOW. An examination of Chemonics' performance data for the global supply chain under the GHSC-PSM contract was a primary objective of the mid-term review, including the documentation, assessment, and validation of delivery performance data from the project's start to the end of June 2019. The external review team used data from GHSC-PSM's Automated Requisition Tracking Management Information System (ARTMIS) and calculated the performance metrics by using methods documented in the project's M&E plan. Overall, the review found that the project met difficult targets, including for OTD and OTIF. The review was completed in February 2020. (See Footnote 1.)

Planned Actions

Independent Data Quality Assessment (DQA): In September 2020, USAID initiated an independent DQA for the GHSC-PSM contract. An independent consultant team sub-contracted under USAID's Global Health Evaluation and Learning Support award is conducting the DQA. The GHSC MEL team within GH prepared the review's SOW (Attachment 2). The DQA will look at a select set of KPIs under the GHSC-PSM contract (OTF, OTD, cycle time) across all Task Orders to (a) ensure that the quality of the monitoring information is sufficient for continued decision making and reporting; (b) identify strengths and weaknesses in the data and improve data management within the GHSC-PSM project; and, (c) help inform the data quality parameters for NextGen. Consistent with the ADS Chapter 201.3.5.7 (Ensuring the Quality of Performance-Monitoring Data), the assessment will seek to determine the strengths and weaknesses of the indicator data by applying the five recognized data quality standards of validity, integrity, precision, reliability, and timeliness.

Internal Semi-Annual Data Quality Assurance Exercises: USAID is developing a plan to conduct semi-annual cross-Task Order assessments of specific metrics in the GHSC-PSM M&E plan. The assessments will use the Agency's data quality standards outlined in ADS 201.3.5.7(a) and a standardized methodology developed for immediate implementation. The plan for the cross-Task Order assessments will be finished by the end of December 2020, to take advantage of the independent DQA described above. Once completed, GH will implement the plan semiannually. USAID also will conduct assessments on any new metrics in the GHSC-PSM contract's M&E plan, in compliance with ADS 201.3.5.7(b), to ensure Chemonics and its partners respect the tenets of data quality.

- **Target Completion Date:** USAID's Management Comments above document how the Agency assesses the indicators used to measure the reliability and responsiveness of the supply chain managed by Chemonics and the GHSC-PSM consortium, focused on the accurate representation of delivery dates, including by reviewing the use of the early-delivery reason code, the OPT, and any other tool that affects the measurement of these indicators. USAID thus requests the OIG to close Recommendation 8 upon the issuance of its Final Report.

Recommendation 9: Work with Chemonics to conduct a review to determine the effectiveness and efficiency of regional distribution centers (RDCs) and implement a plan of action to correct any inefficiencies identified.

- **Management Comments:** USAID agrees with the recommendation, and we outline below the actions we already have taken to address it.

  USAID's review of the effectiveness and efficiency of RDCs under the GHSC-PSM contract and any consequent changes in the consortium's use of RDCs is an ongoing process. The Agency has implemented this review in a manner both consistent across Task Orders and tailored as needed to the specific needs of each Task Order, including during the period covered by the audit.

Ongoing Cross-Task Order Actions

Monitoring the Use of RDCs through the KPIs under the Contract: USAID included several performance metrics on RDCs in the GHSC-PSM M&E plan to allow us to review the effectiveness and efficiency of the proposed RDCs regularly. Soon after the predecessor project completed the transfer of inventory ownership in the fourth quarter of FY 2016 for voluntary family planning and reproductive health and the first quarter of FY 2017 for HIV and malaria, GHSC-PSM started tracking the performance metrics for the RDCs and publishing their results in the project's quarterly and annual reports. GHSC-PSM reports on the contract's KPIs on a quarterly, semi-annual, and annual basis across all Task Orders, according to the requirements of the IDIQ. The contractually mandated RDC-relevant metrics include inventory turns; total landed cost; average percentage of shelf life remaining; percentage of product lost because of expiry; and percentage of product lost to theft, damage, or other causes. The table below details the purpose, reporting frequency, and initiation of each KPI.

KPIs Used to Monitor the Effectiveness and Efficiency of RDCs under the GHSC-PSM Project

Indicator	Purpose	Reporting Frequency	Reporting Initiation
Inventory turns (*Average annual inventory turns*)	Indicates the number of times the inventory "turns over" in a year. Assesses cost-effectiveness and asset-management by evaluating the degree to which inventoried product is not sitting for too long in global stocks controlled by the GHSC-PSM consortium.	Annual	Fourth Quarter (Q4) of Fiscal Year (FY) 2017
Total landed cost (as a percentage of the total value of commodities delivered to recipients)	Refers to the total landed cost expressed as the amount of money (in U.S. Dollars) spent to deliver all commodities to customers, or as the total cost to deliver one USD of product. Is not only a function of operational efficiency but also a result of the supply chain strategy employed to determine the optimal trade-off of cost, reliability, and responsiveness.	Semiannual	Q4 of FY 2017
Average percentage of shelf life remaining for warehoused commodities, weighted by the value of each commodity's stock (*Percentage of product at risk*)	A gauge of the amount of product that is at risk of expiration in a specified time. Measures warehouse efficiency.	Quarterly	First Quarter (Q1) of FY 2017

Indicator	Purpose	Reporting Frequency	Reporting Initiation
Percentage of product lost because of expiry while under the GHSC-PSM consortium's control (*Percentage of product lost*)	Tracks products lost because of expiry while under the control of the project in a warehouse controlled by GHSC-PSM, including RDCs and in-country warehouses. Monitors good warehouse and distribution practices, such as "first expired, first out" (FEFO).	Quarterly	Q4 of FY 2016
Percentage of product lost to theft, damage, or other causes, while under the GHSC-PSM consortium's control (*Percentage of product lost*)	Tracks products lost to theft, damage, or other causes while under the control of the project, whether in a warehouse controlled by GHSC-PSM, in transit to such a facility, or in transit to the customer, within a specified time.	Quarterly	Q4 of FY 2016

In addition to the contractually mandated reporting against the KPIs listed above, GHSC-PSM monitors RDC efficiency as measured by their performance in completing key routine tasks on a regular basis for all products:

- Service-Level Agreements (SLAs) for the RDCs require the accurate reporting of inventory on a daily basis with details on (1) allocated stock; (2) unallocated stock; (3) total inventory value; and, (4) utilization of storage space. Reporting occurs by stock-keeping unit (SKU), and includes details such as the description, quantity, batch, expiration, and shelf life of each product, and related details of each order to track the stock.

- Two additional, routine monitoring KPIs (not contractually mandated) relate to the performance of the RDCs, which USAID and the GHSC-

PSM consortium review monthly: dock to stock (number of days for the RDC to complete the receipt process of delivered goods and make them available for allocation to GHSC-PSM) and outbound documentation (number of days for the RDC to provide GHSC-PSM with all required shipping documents to move products out of the RDC to the destination country).

Other cross-Task Order actions to monitor and review the use of RDCs by the GHSC-PSM consortium include the following:

Visits to RDCs: With the transfer of inventory ownership from the predecessor project (in the fourth quarter of FY 2016 for voluntary family planning and reproductive health and in the first quarter of FY 2017 for HIV and malaria), the GHSC-PSM consortium conducted a full inventory count. Since the transfer, Chemonics and its partners conduct cross-Task Order monitoring visits to the RDCs on an annual basis, which can include USAID staff. The visits check adherence to established processes, procedures, and guidelines, and typically include wall-to-wall full inventory counts to ensure accuracy. Staff from Chemonics' headquarters oversee and certify the inventory counts and ensure the adequate resolution of any discrepancies. In the future, GHSC-PSM and USAID will identify opportunities for greater participation by our staff in these visits and the inventory counts. Future visits will include checks of predetermined metrics by both GHSC-PSM and USAID staff, to guarantee a separate verification of these metrics by both parties.

Use of independent auditors to validate management systems and physical stocks: Chemonics and USAID have agreed that the GHSC-PSM consortium will hire independent auditors to conduct validations of future contract-mandated annual stock counts. The validations will occur in conjunction with the annual visits to the RDCs and stock counts described above, and will provide an additional level of certainty to the monitoring of the RDCs' operations. Third-party entities will provide a neutral certification to complement the monitoring that the consortium provides. The most recent round of third-party audits took place between March and September 2019 and the next round is planned to begin in January or February 2021.

Using joint USAID-GHSC-PSM Technical Working Group 6 (Logistics) in the review of SLA reports and RDC performance: Technical Working Group 6 includes representatives from GH of the Task Orders that use the RDCs. GH has instructed GHSC-PSM to report on the SLA metrics to the Working Group, which has expanded its remit to include examining the RDCs as part of its reviews of global supply chain operations under the contract. These expanded reviews began in August 2020 and will include a dashboard of monthly RDC SLA metrics.

Ongoing Actions Specific to Task Orders under the GHSC-PSM Contract

In addition to cross-Task Order actions for monitoring and reviewing the use of RDCs, the GH staff responsible for the Task Orders under the GHCS-PSM contract also conduct relevant activities tailored to their particular needs:

Task Order 1: Beginning in September 2017, USAID and staff from Chemonics who work on Task Order 1 under the GHSC-PSM contract have participated in biweekly technical meetings on the transition of first-line anti-retroviral medications (ARVs) under the President's Emergency Plan for AIDS Relief (PEPFAR) to review the status of ARVs at the RDCs, including stock at risk because of low shelf life; incoming and outgoing stock for the RDCs; and central level stock in countries that might be at risk of running out. Chemonics and USAID work together to resolve stock problems at the RDCs, address stock challenges in countries, and determine when products stored at the RDCs can mitigate them.

Task Order 2: Task Order 2 under the GHSC-PSM contract provides USAID with a monthly report on inventories at the RDC that includes malaria-related stock quantities, expiration dates, information on the allocation of product, and incoming orders to the RDC. The Task Order's COR and USAID's malaria supply chain team from the President's Malaria Initiative (PMI) review each report and follow up with Chemonics regarding any problems identified. GHSC-PSM has been providing these reports since December 2016.

Task Order 3: Since July 2016, Chemonics and USAID have conducted a monthly "Commodities Reconciliation Review" for Task Order 3. These reviews are a product-by-product examination of inventory for allocated and unallocated stock that includes quantity, value, and remaining shelf life (in months) for each product. The teams review expected country-level orders, as well as a summary of planned replenishments of the RDCs, and they identify key actions/recommendations. In addition, since the transition of inventory from the predecessor project in FY 2016, has provided quarterly reports on the medicines and commodities managed by the RDCs for GHSC-PSM Task Order 3 that include data on stock on hand, in quarantine, and in transit by quantity and value.

Reviews of the RDCs: Chemonics regularly conducts reviews specific to each Task Order under the GHSC-PSM contract to allow for the efficient and appropriate use of the RDCs. The reviews consider the specific needs and characteristics of different products (*e.g.*, easing of supply constraints for contraceptives, the stockpiling of antimalarial medicines before seasonal programs), as well as the different degrees of risk each Task Order can accept. USAID and Chemonics monitor for industry changes (*e.g.*, the introduction of vendor-managed inventory for a product), and determine if these changes should alter the use of RDCs for specific products.

- **Target Completion Date:** USAID's Management Comments above document how USAID reviews the effectiveness and efficiency of the RDCs under the GHSC-PSM contract and takes actions to correct any inefficiencies identified. USAID thus requests the OIG to close Recommendation 9 upon the issuance of its Final Report.

Recommendation 10: Train USAID activity managers to use the project's management information system for requisition order approval and monitoring responsibilities.

- **Management Comments:** USAID agrees with the recommendation, and we outline below the actions we already have taken to address it.

Completed Actions

On May 1, 2020, USAID issued a Technical Direction Memorandum (TDM) to Chemonics that requires it to ensure GH's relevant Activity Managers and Resident Advisors for PMI receive training in the use of ARTMIS to review, approve and track orders (Attachment 3). USAID and Chemonics will track completion of the training, which is a precondition to granting access to ARTMIS.

Chemonics now has made virtual training on ARTMIS available for all users, and 56 of the 56 target trainees have completed it. Chemonics has verified that all individuals who require access to approve requisition orders have completed the training. Seven additional users completed the training who require only reporting access. During this process, some individuals lost their access to the system because they no longer required it because their roles changed, or they left the Agency.

The TDM also requires that Chemonics provide annual refresher training, which will include any system updates, to all GH's relevant Activity Managers and Resident Advisors for PMI. The first refresher training has taken place. The relevant USAID staff must complete the annual refresher training by May 1 of each year to maintain access to ARTMIS. (In Calendar Year 2020, they must finish the training December 31 to maintain access.) Chemonics will track and report on a quarterly basis the number of GH's relevant Activity Managers and PMI's Resident Advisors who complete the refresher training.

- **Target Completion Date:** USAID's Management Comments above document how USAID is ensuring that GH's relevant Activity Managers and Resident Advisors for PMI receive training to use ARTMIS to approve requisition orders and fulfill their monitoring responsibilities. USAID thus requests the OIG to close Recommendation 10 upon the issuance of its Final Report.

Recommendation 11: Establish a timeframe for addressing the recommendation proposed by Bureau for Global Health leadership in 2018 on creation of a central supply chain unit and set target dates for the implementation of accepted changes.

- **Management Comments:** USAID agrees with the recommendation, and we outline below the actions we have already taken to address it.

Completed Actions

In 2018, with assistance from an independent facilitator and change-management expert, GH undertook an assessment of its organizational structure and staffing needs to improve its management of the Bureau's supply chain activities. The team that led the review included the CORs and AORs for the Bureau's GHSC projects, including the CORs for the GHSC-PSM IDIQ and Task Orders; Division/Branch Chiefs for GH's supply chain teams; and the U.S. Global Malaria Coordinator. Other staff from the Bureau were involved at various points in the process.

The process revealed important areas of consensus:

- Stronger cross-GH coordination of certain functions is needed, including M&E, risk management, communications, and strategic visioning;

- The GH supply chain teams exist to support health programs that differ in their strategic emphases and work according to different governance and funding structures, so any organizational model to strengthen cross-Bureau coordination from a central location within GH must respect and support these realities; and

- A central "unit" should neither duplicate functions held by the existing supply chain teams or GH Offices, nor act as an additional level of bureaucracy or hierarchy.

Building from these areas of consensus, the process assessed alternative structures, including management and governance options, to strengthen the Bureau's management of the current and future GHSC programs. Two models emerged for consideration by GH's leadership – a single supply chain coordinator or a unit of three to five people with expertise in cross-cutting areas such as risk management, M&E, communications, and data analytics.

GH has adopted the second model. Implementation began by establishing and recruiting for the position of GH Supply Chain Senior Officer (Supervisory Public Health Advisor) (Attachment 4). The incumbent for this position started on September 14, 2020, and reports to a Deputy Assistant Administrator in GH's

Front Office. The Senior Officer has responsibility for coordinating GHSC-related reporting and communications, strategic planning, risk management, and M&E. The Senior Officer serves as a technical resource to enhance the work of the GH supply chain teams; improve the design of future GHSC programs; coordinate the award of, and transition to, NextGen; and provide other leadership for the current and future GHSC programs. The Senior Officer will establish and lead a new Supply Chain Node within GH's Front Office, which will consist of two to three individuals to ensure effective coordination across GH's supply chain teams and programmatic components, one of whom will be a Supply Chain Risk Management (SCRM) Advisor. The target date for staffing the Supply Chain Node is June 1, 2021.

The Supply Chain Node will work in concert with established management structures and processes in GH that have proven useful for management of GHSC activities and the GHSC-PSM contract. These include the Supply Chain Leadership Team (SCLT), cross-office technical working groups, coordinated country back-stopping by health programs, regular meetings of the CORs for the GHSC-PSM contract with staff from Chemonics, and weekly meetings of GH's supply chain leads and biweekly meetings of the leads with the Bureau's leadership.

The actions taken by GH will (a) create a single, overarching structure that coordinates supply chain-related functions across the Bureau's supply chain teams; (b) enhance the work of the supply chain teams as they perform under their respective strategic mandates and governance (accountability) and funding structures; and, (c) enhance the Bureau's ability to communicate in a single voice in such critical areas as supply chain reporting and risk management.

- **Target Completion Date:** USAID's management comments above provide a timeframe and set target dates for implementing accepted changes to create a central supply chain unit. USAID thus requests the OIG to close Recommendation 11 upon issuance of its Final Report.

Recommendation 12: Establish a timeframe for addressing the recommendation proposed by management consultants in 2019 on risk mitigation issues and set target dates for the implementation of accepted changes.

- **Management Comments:** USAID agrees with the recommendation, and we outline below the actions we have already taken to address it.

Ongoing and Planned Actions

GH has begun to address the consultants' recommendation to establish a robust supply chain risk management process, by building on USAID's three-tier corporate ERM approach at the Agency, Bureau, and Mission levels. At the Agency level, USAID relies on our Policy Framework, "Ending the Need for Foreign Assistance," and our ERM Program.[78] At the Bureau level, GH uses its Global Health Results Framework and risk profile. At the Mission level, the Agency depends on each OU's Country Development Cooperation Strategy and individual risk profile.

Building a Supply Chain Risk Management Team: As described in the Management Comments for Recommendation 11, GH is establishing a Supply Chain Node, which will include a SCRM Advisor for the Bureau. Each of the Offices within GH that is managing supply chain activities is hiring dedicated staff with SCRM responsibilities. For example, the Malaria Division in the Office of Infectious Diseases hired a Supply Chain Risk Advisor, who started work on July 6, 2020. The Office of Population and Reproductive Health has also hired a Supply Chain Advisor responsible for SCRM, and the Office of HIV/AIDS is in the final stages of recruiting a Risk Manager. Together, these positions will form GH's SCRM Team, coordinated by the SCRM Advisor, charged with supporting USAID's Missions and partners to identify, prioritize, mitigate, and monitor supply chain risks systematically.

Mission SCRM Teams (January 2021): Just as GH is establishing a SCRM Team at USAID headquarters, the Agency will create SCRM Teams at a number of our Missions, each of which will include a Supply Chain Activity Manager(s) and Risk Management Liaison. Over the course of FY 2021, GH will roll out the SCRM model developed by the consultant to each Mission and facilitate its completion to identify and prioritize supply chain risks on a country-specific basis. The SCRM model will be a living document, owned by each Mission's SCRM Team, which will be responsible for updating it and sending it to GH's SCRM Team on a quarterly basis. Each Mission's SCRM Team will present

[78] See https://www.usaid.gov/sites/default/files/documents/1870/WEB_PF_Full_Report_FINAL_10Apr2019.pdf and https://www.usaid.gov/policy/risk-appetite-statement.

significant supply chain risks to their OU's Management Council for Risk and Internal Control (MCRIC) for inclusion on the Mission's Risk Profile.

SCRM Risk Registry (February 2021): Based on how each Mission completes the SCRM model, GH's SCRM Team will consolidate risks across countries on a SCRM Risk Registry and focus its efforts on the most common risks. The GH SCRM Team will present these significant supply chain risks to the Bureau's MCRIC for inclusion on GH's Risk Profile. In turn, GH will present significant supply chain risks to the Agency's Risk Management Council to review and consider sending them to the Agency's Executive Management Council on Risk and Internal Control for inclusion on USAID's corporate Risk Profile.

SCRM Toolkit (March 2021): The GH SCRM Team will develop a SCRM Toolkit, also called a "Playbook," to address common supply chain risks and provide means to address them. The purpose of the SCRM Playbook is to systematize the process for identifying, assessing, responding to, and anticipating supply chain risks of any type. The Playbook establishes a standardized and collaborative step-by-step process for managing risk for everyone in the organization to follow. The steps in the Playbook will link to templates, SCRM audit tools and checklists, and other SCRM "assets" to ensure the necessary implementation tools are readily available to users. The SCRM Playbook also will provide common risk management approaches and indicators to guide the design of new supply chain awards.

SCRM Awards: GH has included two supply chain risk management awards as part of NextGen. (see USAID's business forecast, usaid.gov/business-forecast,). GH made the first award, the Supply Chain Security Contract, on October 1, 2020. This contract focuses on detecting diverted and falsified health products and putting in place measures to limit the illicit trade of medicines and health products. The contract includes support for in-country capacity building for national institutions to assume these functions. The second planned award is broader and will focus on identifying and mitigating upstream and downstream supply chain vulnerabilities and potential risks. USAID anticipates making this award by November 2021.

- **Target Completion Date:** USAID's management comments above provide a timeframe for addressing the recommendation proposed by the management consultant in 2019 on risk mitigation issues and set target dates for the implementation of accepted changes. USAID thus requests the OIG to close Recommendation 12 upon issuance of its Final Report.

Recommendation 13: Require USAID activity managers to use the project's management information system for requisition order approval and discontinue the use of proxy approvals.

- **Management Comments:** USAID agrees with the recommendation, and we outline below the actions we already have taken to address it.

Completed Actions

The TDM mentioned above requires that Chemonics develop and implement a plan to require GH's relevant supply chain Activity Managers and PMI's Resident Advisors to use ARTMIS to approve requisition orders digitally. The TDM requires that Chemonics discontinue the systematic use of stand-alone Excel spreadsheet trackers for the sole purpose of allowing GH's Activity Managers to obtain order information that is available in ARTMIS. The few exceptions TDM describes the few exceptions allowed. GH and Chemonics shared the TDM with the relevant Activity Managers and PMI's Resident Advisers, and advised them on June 1, 2020, that they must approve all orders digitally through ARTMIS (Attachment 5).

- **Target Completion Date:** USAID's Management Comments above document how the Agency now requires the relevant Activity Managers in GH to use the MIS for the GHSC-PSM project to approve requisition orders and discontinue the use of proxy approvals. USAID thus requests the OIG to close Recommendation 13 upon the issuance of its Final Report.

Recommendation 14: Work with Chemonics to complete an assessment of the organizational structure and staffing needs to manage the GHSC-PSM project.

- **Management Comments:** USAID agrees with the recommendation, and we outline below the actions we already have taken to address it.

Ongoing Actions

As noted in the draft report, after pressure from USAID, Chemonics undertook several major changes in its management of the GHSC-PSM contract early in the project to address its performance deficiencies, including by terminating several senior executives. The latest restructuring cited in the draft report took place in 2017 (though the period covered by the audit extends through November 2019). No additional significant restructurings have proven necessary since.

USAID's CORs for the GHSC-PSM contract review the project's organizational structure on an annual basis when Chemonics submits its headquarters work plan. The consortium delivered its most recent work plan on October 15, 2020. The CORs reviewed the organogram in the work plan and did not identify any vacancies in key personnel or leadership positions. The organogram did show a number of other open positions across the project, and the CORs pressed Chemonics to commit to filling them. Chemonics confirmed that it and its partners in the consortium have the leadership resources needed to implement the program successfully, and that the current vacancies have not affected its performance.

As part of this review process, USAID's CORs and Chemonics discuss skill sets that might be needed but that the current organogram for GHSC-PSM does not reflect. With USAID's approval, Chemonics may repurpose, revise, and/or update positions to meet the needs of the contract. For example, USAID's CORs are currently assessing with Chemonics how to strengthen the project's MEL activities, specifically by creating additional MEL positions. GH also reviews Chemonics' staffing plan for each Task Order under the IDIQ continuously for opportunities to strengthen activities in specific areas. Our emphasis at the moment is on the collection and analysis of data, supply-planning, and coordination among donors.

- **Target Completion Date:** USAID's Management Comments above document how the Agency is working with Chemonics on an ongoing basis to assess the organizational structure and staffing needs of the GHSC-PSM consortium to manage the project. USAID thus requests the OIG to close Recommendation 14 upon the issuance of its Final Report.

APPENDIX D. MAJOR CONTRIBUTORS TO THIS REPORT

The following people were major contributors to this report: Pamela Hamilton, assistant director; Ryan McGonagle, assistant director; Brianna Schletz, assistant director; Jessica Pearch, auditor; Robyn Blount, auditor; Mary Llacer-Salcedo, auditor; Carlos Molina, auditor; Wangui Njuguna, writer-editor; Laura Pirocanac, supervisory writer-editor; Steven Ramonas, auditor; Calvin Siow, program analyst; Brian Smith, auditor; Lindsay Swisher, program analyst; Catherine Trujillo, auditor; and David Waldron, auditor.