



OFFICE OF INSPECTOR GENERAL

AUDIT OF USAID/BANGLADESH'S NGO HEALTH SERVICE DELIVERY PROJECT

AUDIT REPORT NO. 5-388-15-006-P
AUGUST 26, 2015

MANILA, PHILIPPINES



Office of Inspector General

August 26, 2015

MEMORANDUM

TO: USAID/Bangladesh Mission Director, Janina Jaruzelski

FROM: Acting Regional Inspector General/Manila, Steven K. Ramonas /s/

SUBJECT: Audit of USAID/Bangladesh's NGO Health Service Delivery Project (Report No. 5-388-15-006-P)

This memorandum transmits our final report on the subject audit. In finalizing the audit report, we considered your comments on the draft and included them in their entirety, excluding attachments, in Appendix II.

The audit report contains nine recommendations to help the mission improve various aspects of the project. After reviewing information provided in response to the draft report, we determined that the mission made management decisions on all nine recommendations and took final action on Recommendation 6. We disagree with the decision on Recommendation 1. Please provide evidence of final action on the open recommendations to the Audit Performance and Compliance Division.

Thank you for the cooperation and assistance extended to the audit team during this audit.

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Abbreviations

The following abbreviations appear in this report:

ADS	Automated Directive System
CSP	community service provider
ESP	essential service package
GUC	grants under contract
NGO	nongovernmental organization
NHSDP	NGO Health Service Delivery Project
OAA	Office of Acquisition and Assistance
RIG	Regional Inspector General
SSFP	Smiling Sun Franchise Program

SUMMARY OF RESULTS

According to USAID/Bangladesh, lack of access to health services in the South Asian country is a common problem for the poor. Many must travel long distances to reach a clinic, and transportation—and the actual care—can be costly. These problems, combined with inadequate service and a lack of information about health care, are often causes for child and maternal mortality.

USAID/Bangladesh launched the NGO (nongovernmental organization) Health Service Delivery Project (NHSDP) in collaboration with the Bangladeshi Government and other international organizations in 2013 to provide affordable health care in underserved areas. In the past, the mission's Office of Population, Health, Nutrition, and Education has funded NGO networks to implement similar projects; the two most recent were the NGO Service Delivery Program from 2002 to 2006 and the Smiling Sun Franchise Program (SSFP) from 2007 to 2012.

In December 2012 USAID/Bangladesh awarded a \$54 million, 4-year contract to Pathfinder International to implement NHSDP. A year later, in September 2013, the United Kingdom's Department for International Development in Bangladesh added almost \$29 million through an agreement with USAID/Bangladesh, thereby increasing the total amount to almost \$83 million. The contract provides for grants under contract (GUC)¹ and authorizes Pathfinder to award up to \$54 million in grants to NGOs; the remaining \$29 million goes to Pathfinder to cover the cost of supporting the NGOs. As of September 30, 2014, the mission had obligated approximately \$43 million and disbursed \$22 million for the project.²

NHSDP supports the delivery of an essential service package (ESP)³ of primary health care through a national network of NGOs that operate Smiling Sun clinics⁴ and community service providers (CSPs) in Bangladesh. According to the mission, the project complements the government's efforts to provide affordable, quality health services to the poor.

Pathfinder awarded 26 grants to NGOs that made commitments to transform their clinics into facilities that provide quality health care. As of September 30, 2014, these NGOs are operating 330 clinics that serve about 23 million people, almost 15 percent of Bangladesh's population.

NHSDP planned to deliver three intermediate results:

1. Expand the number of clients, especially among the poor, who get quality ESPs. This includes improved access to services through a cohesive network of clinics and CSPs; strengthened partnerships and coordination with government authorities and other USAID-supported projects; and enhanced sustainability of ESP delivery through innovative

¹ This is a type of financial arrangement that USAID uses to allow a contractor to award grants.

² These amounts come from the Agency's financial systems. On November 17, 2014, OIG issued *Audit of USAID's Financial Statements for Fiscal Years 2014 and 2013* (No. 0-000-15-001-C), disclaiming an opinion because of material unsupported adjustments that USAID made to reconcile its general and subsidiary ledgers. We did not perform any additional tests during this audit to verify the accuracy of the reported amounts. In FY 2015 we plan to test USAID's adjustments to determine whether they were accurate and appropriate. USAID intends to provide explanations and other support to demonstrate the adjustments' validity.

³ An ESP is a set of interventions designed to deliver services such as child health care.

⁴ Smiling Sun (*Surjer Hashi* in Bangla) is a network of NGOs that manage clinics and CSPs developed through SSFP.

financing structures. As part of sustainability, the goal is that the clinics can cover at least 40 percent of total operating costs through program income and other sources (e.g., income from new business initiatives, interest income from non-federal funds, and third-party payers such as the Bangladeshi Government).

2. Help communities promote healthy habits and use of clinic services.
3. Strengthen the ability of local NGOs to manage delivery of quality services in the clinics. Under this intermediate result, Pathfinder will choose two high-performing NGOs and give them technical assistance so they eventually can receive grants directly from USAID/Bangladesh.

The Regional Inspector General (RIG/Manila) conducted this audit to determine whether the project is expanding health care to the poor and recovering enough of its costs to be sustainable. We focused on the first intermediate result.

During the first 2 years, the project made progress (page 4). The percentage of “service contacts” (patients) who qualify as poor has increased from 36 percent to 38 percent between the first and second years, respectively. In addition, the collective cost recovery rate of the clinics has increased from 31 percent in year 1 to 33 percent in year 2, as shown in the table below. Except for year 2’s achievement on the first indicator—which is 98 percent of the annual target—all these improvements are in line with the annual targets set for both years.

Progress of Performance Indicators Selected for Testing (Audited)

Indicator	Overall Project Target	Year 1 Reported Achievement	Year 2 Reported Achievement
<i>Number of service contacts an NGO partners clinics</i>	151,362,000	32,435,198	35,003,645
<i>Percentage of service contacts who qualify as poor</i>	40	36	38
<i>Cost recovery rate</i>	40	31	33

Furthermore, USAID/Bangladesh is assessing two of the local NGOs that Pathfinder has worked with to determine whether they are eligible for grants directly from the mission (page 4).

Despite these successes, we found the following problems.

- NHSDP lacked a comprehensive sustainability plan (page 5). Without it, the project runs the risk of continuing to depend on donor funding.
- Clinics could not expand services due to constraints in using program income (page 6). All proposals for using the income had to be reviewed and approved by the mission first, and that process was slow.
- Employees in some clinics had not been paid (page 7). One NGO that was managing three clinics could not pay employees for 2 months because USAID/Bangladesh’s approval of project funds was delayed, use of program income was restricted, and the NGO’s funds were locked in fixed-term accounts.

- The project lacked a comprehensive plan to improve technical capacity of NGOs and clinic staff (page 8). Employees in the clinics got minimal training, and patient management and financial systems were inefficient.
- Some clinics were not using the management guideline (page 9). Some did not have copies of it, some were still using old versions from previous projects, and the new version had not been translated from English into Bangla, the local language.

We recommend that USAID/Bangladesh:

1. Require Pathfinder to develop and implement a comprehensive sustainability plan, which includes other methods to raise program income beyond the 40 percent cost-recovery rate (page 6).
2. Develop and implement procedures to ensure that NGOs' requests to use program income to expand clinic services are submitted, reviewed, and approved in a timely manner (page 7).
3. Require Pathfinder to determine how many other clinics have not paid staff salaries on time, implement a plan to verify that NGOs' program income funds are readily available to pay project expenses, and establish procedures to have NGOs pay salaries on time (page 7).
4. Establish a procedure for timely reviews and approvals of annual project budgets (page 7).
5. Require Pathfinder to work with the NGO grantees to review the training models and implement a plan to address training needs of clinic employees (page 9).
6. Require Pathfinder to review the management information system and data processing procedures developed for the project to verify that the system addresses the users' needs (page 9).
7. Require Pathfinder to set a deadline to complete the translation of the revised *Surjer Hashi Management Guideline* into Bangla and provide copies of it to all clinics (page 10).
8. Require Pathfinder to check whether clinics are using the revised guideline and to incorporate this task into its monitoring process (page 10).
9. Require Pathfinder to provide training to clinics on the updated sections of the guideline and emphasize the importance of using the guideline (page 11).

Detailed findings appear in the following section, and the scope and methodology appear in Appendix I. OIG's evaluation of management comments is on page 12, and the full text of them is in Appendix II.

AUDIT FINDINGS

Project Expanded Some Essential Health Services

According to the contract, Pathfinder would help local NGO partners expand essential health services to the poor in a more efficient manner.

NHSDP has had a positive impact on providing care to newborn babies and reproductive health services. Pathfinder reported that it provided “immediate care” to about 74,000 newborns in year 2, which is 148 percent more than the target of 50,000. The project attributed this success to training, monitoring, and more modern delivery facilities like the one in the photo below.



This delivery room at a clinic in Bogra is one of the facilities improved by NHSDP. (Photo by RIG/Manila, November 2014)

Clients we interviewed said they used the clinic because of the friendly atmosphere, good services, and lower fees. One of the clients featured by Pathfinder in its annual progress report was the mother of three children who had her first pregnancy at 14. She said that after three pregnancies and the death of one of the children, her husband and family pressured her to have another child, although she did not want to. She lost her job when she got pregnant, and she said she felt helpless. A CSP advised her to go to a Smiling Sun clinic, where she received prenatal care for the first time and eventually delivered the baby. The clinic paramedic then discussed the risk of having another baby too soon and contraceptives with her. With the paramedic’s counseling, her husband consented for her to have a contraceptive implant.

NHSDP also has begun to address the project’s third goal of helping local NGOs strengthen their abilities so they can receive grants directly from the mission. Pathfinder identified

two NGOs that have demonstrated improved performance in services while supporting more than 20 clinics, and USAID/Bangladesh is now conducting pre-award assessments on them.

Project Lacked Comprehensive Sustainability Plan

According to the Foreign Assistance Act of 1961, as amended:

Assistance under this chapter should be used not only for the purpose of transferring financial resources to developing countries, but also to help countries solve development problems in accordance with a strategy that aims to insure wide participation of the poor in the benefits of development on a sustained basis.

USAID's Automated Directive Systems (ADS) 200.3.1.5 stresses the importance of "building the skills and capacity of local stakeholders critical for maintaining gains on implemented activities after the program or project ends" and making sure that "activities or services are tied to sustainable financing models, either through private-sector participation or publicly-managed arrangements."

To address sustainability, the contract requires Pathfinder to design a plan to recover at least 40 percent of costs from program income.⁵ It also requires Pathfinder to:

develop innovative financing structures (e.g., donations from the private sector, third party payers, cross subsidization schemes, sliding fee scales, cost containment strategies) to leverage additional resources to enhance sustainability, and to improve the quality, scope and reach of services for the poor.

However, the project focused only on the 40 percent cost-recovery rate, not on how the remaining 60 percent of costs will be sustained after it ends. In fact, USAID/Bangladesh's assessment of Pathfinder's performance conducted in June 2014 stated that the project had not shown much progress in enhancing sustainability of ESP delivery through new methods of generating income.

The mission's previous health program—SSFP—was designed with a significantly higher cost recovery rate of 70 percent. A midterm assessment of that program⁶ found that an unreasonable emphasis on cost recovery was not consistent with the goal of providing quality services to the poor. According to the implementer, this was because several essential health services had little or no cost recovery potential, and clinics serving large poor populations in underserved communities are less likely to generate enough money to meet cost-recovery targets.

Although the contract allows Pathfinder to explore other initiatives through business planning and using additional support to enhance sustainability, the mission was not tracking them and Pathfinder did not develop a proper plan for achieving sustainability. A mission official said enacting the sustainability plan takes time and would be in a future health service delivery project. However, that plan does not address the problems that stem from not having one for the current project.

⁵ Program income refers to money earned from services and sales of equipment and drugs.

⁶ This assessment was mentioned in the NDHSP contract.

Without a comprehensive sustainability plan to explore other methods to raise income beyond the required 40 percent, the clinics may continue to rely on additional donor funding to serve the poor after the project ends. To address this concern, we make the following recommendation.

Recommendation 1. We recommend that USAID/Bangladesh require Pathfinder International to develop and implement a comprehensive sustainability plan, which includes other methods to raise program income beyond the 40 percent cost-recovery rate.

Clinics Could Not Expand Due to Constraints in Using Program Income

According to the NHSDP contract:

Pathfinder International in collaboration with its local partner NGOs will also have flexibility to design, implement and monitor innovative approaches to promote cost recovery without compromising access to the poor. These pro-poor cost recovery mechanisms may include service promotion, strategic business planning, price management, additional revenue streams, cost containment, cross-subsidization (i.e., income generated from services to the non-poor and/or from clinics with a high cost recovery potential can be used to subsidized services for the poor) and strategic relationships with the private-sector.

Pathfinder was supposed to help the clinics be able to recover 40 percent of their costs by the end of the contract in 2017. Though some clinics have met or exceeded their second-year target of recovering 30 percent of their costs, 5 of the 13 clinics (39 percent) we visited did not; on average, they recovered 23 percent.

Clinic employees said they could not rely only on fees to cover the costs of expanding services. They mentioned additional services they could offer, such as lab tests and ultrasounds, that could provide more revenue. Regular paying clients in the five clinics said they were willing to pay for new services because it would be less expensive than traveling to neighboring towns for them. However, to be able to provide these additional services, the clinics would have to invest in renovation, equipment, additional staff, and training.

At the clinic we visited in the city of Teknaf, the project classified 38 percent of the paying patients as “non-poor” who would be able to pay for additional services if they were available. According to the manager, the clinic would often receive cases that required blood tests and ultrasounds. However, since the clinic did not have the equipment and staff to perform these services, they referred the patients to hospitals in a nearby city.

Most of the staff we interviewed said their clinics could not expand services because of constraints and delays in the approval process regarding using program revenue. Pathfinder reviews any request to use the funds and then sends it to USAID/Bangladesh for approval. According to USAID/Bangladesh, delays occurred because of heavy mission staff turnover and any proposed expansion plan from NGOs sent to USAID/Bangladesh generated questions and concerns, which required several consultations before approval.

As a result, the delays are preventing the clinics—and the project—from providing essential health services to the poor. Furthermore, not having the option to use program income when necessary limits the clinics’ potential to expand services needed in low-income communities in

Bangladesh. It also could prevent clinics from meeting other obligations, such as paying salaries, as discussed in the next finding. Therefore, we make the following recommendation.

Recommendation 2. *We recommend that USAID/Bangladesh develop and implement procedures to ensure that nongovernment organizations' requests to use program income to expand clinic services are submitted, reviewed, and approved in a timely manner.*

Employees in Some Clinics Had Not Been Paid

The NHSDP contract requires Pathfinder to help the NGOs develop specific human resource recruitment, training, and retention strategies that can be tailored to their needs, including systems to monitor staff turnover regularly.

However, employees at three of the clinics we visited had not been paid in 2 months. Officials there said this happened because the third-year budget had not been approved yet and other bills were more pressing. In addition, the NGO that manages these three clinics did not pay its staff because it kept its program income and revolving drug funds⁷ in a fixed-term bank account to earn higher interest.

One employee said because salaries frequently were paid late, many employees were dissatisfied and moved on to other jobs.

Officials at Pathfinder said they did not know about the unpaid salaries but knew there had been a delay in paying grant funds to NGOs, which included funds for salaries. The officials said Pathfinder submitted the budget to USAID/Bangladesh in September 2014, but it had not been approved at the time of the audit. Pathfinder said it allowed the NGOs to use the revolving drug fund to pay salaries while waiting for the grants to be issued.

Mission officials attributed the delayed approval process to heavy staff turnover within the Office of Population, Health, Nutrition, and Education when Pathfinder submitted the budget request.

Delayed salary payments could affect staff productivity and performance, thus disrupting quality service delivery and any planned expansion of services. It also could affect the staff's morale and worsen the already high turnover rate at the clinics. Therefore, we make the following recommendations.

Recommendation 3. *We recommend that USAID/Bangladesh require Pathfinder International to determine how many other clinics have not paid their staff salaries on time, implement a plan to verify that nongovernmental organizations' program income funds are readily available to pay project expenses, and establish procedures to have nongovernmental organizations pay salaries on time.*

Recommendation 4. *We recommend that USAID/Bangladesh establish a procedure for timely reviews and approvals of annual project budgets.*

⁷ According to the World Health Organization, "In a revolving drug fund, a sum of money is used to purchase an initial stock of essential and commonly used drugs to be sold, ideally at a price sufficient to replace the stock of medicines and ensure a continuous supply."

Project Lacked Comprehensive Plan to Improve Technical Ability of NGOs and Clinic Staff

The NHSDP contract states that the project will enhance local management of service delivery by placing “greater emphasis on establishing defined NGO institutional strengthening milestones for sustainability and building the administrative, organizational, financial and managerial capacity of local NGOs to meet standards.”

Training to Enhance Technical Capacity Was Limited. As part of its institutional strengthening efforts to enhance the NGOs’ and clinics’ ability to expand the range of ESPs to the poor, the project needed to provide technical training to their employees. In addition, as part of its deliverables, Pathfinder was required to increase access to “long-acting and permanent methods” of family planning, maternal health services, nutrition interventions, community and clinic-based services for newborns, and treatment of acute respiratory infection. The training would address the gaps in the delivery of these services by providing skills needed for the new services and updates on existing ones.

However, 2 years into the project, some clinic employees said they did not receive the training they needed to deliver the range of essential health services expected of the clinics. Pathfinder reported that in the project’s first 2 years, it conducted about 30 different courses related to technical and management aspects of clinics. The technical courses included mostly orientation and training-of-trainers while the management courses were more for NGO project directors and clinic managers.

At the 13 clinics we visited, most paramedics and counselors had taken courses on gender-based violence, counselors received training on interpersonal communication, and paramedics received training on how to deliver emergency care safely. However, the employees said they needed new and refresher trainings in intrauterine device insertion, acute respiratory infection, reproductive tract/sexually transmitted infections, and antenatal care. Some counselors said they received training on family planning years ago from previous projects but none from the current project. A doctor who has worked in one of the clinics for 14 years said he has not received any training from the project.

In addition, the CSPs who were the project’s volunteers and links to the communities said they need training on how to promote healthy behaviors and practices to help them encourage more clients—including those who could pay for services—to use the clinics.

Finally, some of the clinics’ administrative and record management employees did not have financial backgrounds and had not received any training on financial and database management systems. According to a clinic manager, training on basic bookkeeping and use of simple systems or applications to replace the manual, repetitive, and time-consuming recording system would have helped them deliver better services more efficiently.

The project had completed a training needs assessment and designed an integrated training plan that included the topics described above. The model used for most of the training is the training-of-trainers approach, in which a representative from each NGO and clinic would be trained and then would train his or her peers.

However, the training model had weaknesses. Pathfinder reported that many of the trainers did not have the skills they needed to train their peers. The contractor had relied on these NGO and

clinic representatives because the contract did not have any provisions to recruit professional trainers for the project.

Without enough training for staff, the ability of the clinics to expand the range of ESPs to the poor is limited. To address this concern, we make the following recommendation.

Recommendation 5. *We recommend that USAID/Bangladesh require Pathfinder International to work with the nongovernmental organization grantees to review the training model and implement a plan to address training needs of clinic employees.*

Patient Recording, Performance Tracking, and Financial Systems Were Inefficient. The contract requires that “management information systems are established to monitor access to and quality of ESP service delivery and to be used for program planning and management.” Additionally, the GUC require data to be submitted electronically through the management information systems.

However, most clinics we visited were entering patient information and accounting data manually. Since the employees were mostly multitasking and many transactions needed to be recorded in registers, the manual process was time-consuming and prone to human error.

Furthermore, bookkeeping practices varied from one NGO to another without any consistency in reporting project income. Pathfinder did not determine whether any of the NGOs’ systems could be used by all the NGOs because it was developing a new management information system. During the audit fieldwork, the new system was in the pilot phase. Although Pathfinder had distributed forms that the clinics will use, employees in the clinics said they were confusing and would require them to enter the same sets of data in numerous forms, which was time-consuming.

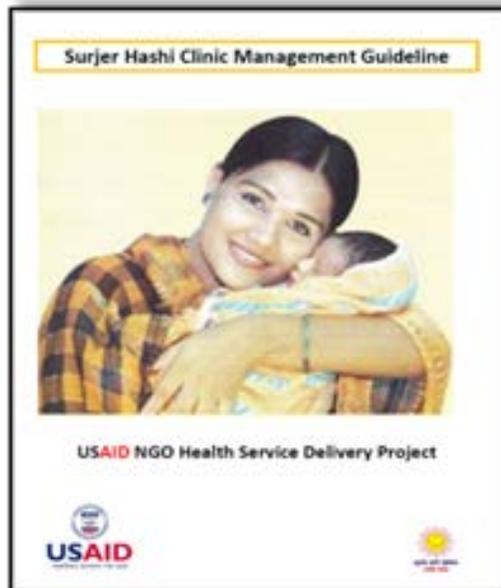
Inefficient recording, performance tracking, and financial systems could lead to erroneous, unreliable reports. In addition, because the management information system is not efficient, clinic staffs are spending an inordinate amount of time to enter information. Therefore, we make the following recommendation.

Recommendation 6. *We recommend that USAID/Bangladesh require Pathfinder International to review the management information system and data processing procedures it developed for the project to verify that the system addresses user needs.*

Some Clinics Were Not Using Management Guideline

According to the NHSDP contract, Pathfinder is supposed to help local NGOs make their services more efficient, as well as expand their reach and incorporate appropriate new technologies. To address this, one of the expected results of the first year was to revise the *Surjer Hashi Clinic Management Guideline*,⁸ shown on the next page. This is a manual on management and technical standards that clinics in the Smiling Sun network should follow. The revised version was necessary to help clinics provide services in accordance with national guidelines and priority areas of the project. For example, the quality management system section was updated to highlight NHSDP focus areas and included guidelines for improving quality and supervision.

⁸ Past projects have provided numerous versions of the guideline.



This manual was written in English instead of Bangla, the language most clinic staff understand. (Photo by Pathfinder International)

In its year 1 report, Pathfinder reported that it revised the manual and gave copies of it to the NGOs. However, some of the clinics we visited either did not have the new copies or were still using versions from previous projects. In one clinic, the staff did not know where the copy was and had trouble finding it.

Pathfinder officials said they expected the NGOs to give copies to all the clinics. However, neither Pathfinder nor USAID/Bangladesh monitored the NGOs to make sure this happened because they said they are focused more on service delivery activities.

In addition to the dissemination problem, *Guideline* was in English, not Bangla—the national language predominantly spoken in most clinics. Pathfinder officials said the complete translation was still in process with no established completion date. They added that they did not make translation a priority because part of the information in the manual was already distributed to the clinics in Bangla.

If the clinics are not using the guideline, the project's ability to achieve its goal of expanding quality health services to the poor is limited. To address this concern, we make the following recommendations.

Recommendation 7. We recommend that USAID/Bangladesh require Pathfinder International to set a deadline to complete the translation of the revised Surjer Hashi Management Guideline to Bangla and provide copies to all clinics.

Recommendation 8. We recommend that USAID/Bangladesh require Pathfinder International to check whether clinics are using the revised Surjer Hashi Management Guideline and to incorporate this task into its monitoring process.

Recommendation 9. *We recommend that USAID/Bangladesh require Pathfinder International to provide training to clinics on the updated sections of Surjer Hashi Management Guideline and emphasize the importance of using the guideline.*

EVALUATION OF MANAGEMENT COMMENTS

In its response to the draft report, USAID/Bangladesh agreed with 8 of the 9 recommendations. The mission made management decisions on all of them and took final action on Recommendation 6. An evaluation of the management comments follows.

Recommendation 1. USAID/Bangladesh disagreed with the recommendation to require Pathfinder to develop and implement a comprehensive sustainability plan, which includes other methods to raise program income beyond the 40 percent cost-recovery rate. Accordingly, the mission has made a management decision.

Although we acknowledge the decision, we disagree with the mission's contention that increasing revenues beyond the 40 percent cost-recovery rate is not a deliverable under this project and would adversely affect its ability to achieve the main objective of serving the poor. In fact, to address sustainability, the contract requires Pathfinder to design a plan to recover *at least* 40 percent of costs from program income, to develop innovative financing structures (e.g., donations from the private sector, sliding fee scales, cost containment strategies), to use additional resources to enhance sustainability, and to improve the quality, scope, and reach of services for the poor.

Additionally, the contract allows Pathfinder to explore other initiatives through business planning and using additional support to enhance sustainability. But the mission was not tracking them, and Pathfinder did not develop a proper plan for achieving sustainability. A comprehensive sustainability plan is essential to make sure that the project's clinics can continue or evolve under their own momentum or actions to serve the poor after the project ends without continued donor intervention.

Recommendation 2. USAID/Bangladesh agreed with the recommendation and made a management decision to develop and implement procedures to ensure that through closer communication and collaboration with its Office of Acquisition and Assistance (OAA), NGOs' requests to use program income to expand clinic services are submitted, reviewed, and approved in a timely manner. It planned to develop and implement a plan by September 30, 2015. We acknowledge the mission's management decision.

Recommendation 3. USAID/Bangladesh agreed with the recommendation and made a management decision to require that Pathfinder develop and implement a monitoring plan to make sure salaries of employees within all 26 NGOs in the Smiling Sun network clinics are paid on time. Pathfinder will assess clinics that did not pay staff salaries and will conduct routine checks with NGOs to make sure they are paying on time. The mission planned to complete this action after the COR approved the monitoring plan by August 30, 2015. We acknowledge the mission's management decision.

Recommendation 4. USAID/Bangladesh agreed with the recommendation and made a management decision to establish a procedure for timely reviews and approvals of annual project budgets. Mission officials acknowledged that the delay in approving the budgets was due in part to heavy staff turnover. They said they will make sure such delays are avoided and will collaborate with its OAA to establish a contingency plan that require a review and approval

procedure to be finalized and implemented by September 30, 2015. Accordingly, the mission has made a management decision.

Recommendation 5. USAID/Bangladesh agreed with the recommendation and made a management decision to require Pathfinder to review its current training model and complete a training needs assessment in its implementation training plan. The target date for completing and submitting the plan is September 30, 2015. We acknowledge the mission's management decision.

Recommendation 6. USAID/Bangladesh agreed with the recommendation and made a management decision to require Pathfinder to develop an electronic management information system. It was activated on July 1, 2015, and data processing procedures were developed and distributed to all clinics that month. Accordingly, we acknowledge the mission's management decision and final action.

Recommendation 7. USAID/Bangladesh agreed with the recommendation and made a management decision to require Pathfinder to set a deadline to complete the translation of the revised management guideline into Bangla. Pathfinder plans to have this available in print and on CDs for all clinics by October 31, 2015. We acknowledge the mission's management decision.

Recommendation 8. USAID/Bangladesh agreed with the recommendation and made a management decision to require Pathfinder to include in its monitoring checklist whether clinics are using the revised management guideline and to submit the revised checklist to USAID by August 15, 2015. Pathfinder will provide a report on this to USAID by December 30, 2015. We acknowledge the mission's management decision.

Recommendation 9. USAID/Bangladesh agreed with the recommendation and made a management decision to require Pathfinder to include training on the guideline in its year 4 training plan. The mission asked the contractor to conduct training for staff at all 26 NGO clinics no later than December 30, 2015. We acknowledge the mission's management decision.

SCOPE AND METHODOLOGY

Scope

RIG/Manila conducted this performance audit in accordance with generally accepted government auditing standards. They require that we plan and perform the audit to obtain sufficient, appropriate evidence to provide a reasonable basis for our findings and conclusions in accordance with our audit objective. We believe that the evidence obtained provides that reasonable basis.

The purpose of the audit was to determine whether USAID/Bangladesh's NHSDP is achieving its main goal of expanding health care to the poor and recovering enough of its costs to be sustainable. As of September 30, 2014, the mission had obligated approximately \$43 million and disbursed \$22 million for the project. Because this was a performance audit that looked at project implementation rather than specific financial transactions, the audit team did not review the disbursements. The audit team covered selected activities from the project's inception through September 30, 2014.

We assessed the following significant internal controls that USAID/Bangladesh used to monitor project activities: Pathfinder's quarterly and annual progress reports, the performance monitoring and evaluation plan, and reports of meetings between mission officials and Pathfinder. We also assessed monitoring that Pathfinder conducted of grantees' activities and the mission's site visits to validate project achievements. We examined the mission's FY 2013 annual self-assessment of management controls, which it must perform to comply with the Federal Managers' Financial Integrity Act of 1982, to check whether the assessment cited any relevant weaknesses.

RIG/Manila conducted audit fieldwork from November 11 to December 5, 2014, at USAID/Bangladesh's office in Dhaka, the offices of the central and local governments, and selected NGO clinics in the districts of Bogra, Cox's Bazar, Dhaka, Gazipur, Jessore, and Khulna.

Methodology

Through interviews, documentation reviews, and data analysis, the audit team obtained an understanding of (1) the project's main goals, (2) how the mission and Pathfinder monitor the project, (3) how the mission checks the quality of the data reported, and (4) whether the mission, Pathfinder, and partners were aware of any allegations of fraud or other potential illegal acts or noncompliance with laws and regulations.

In assessing the progress of the activities carried out to expand services to the poor and recover enough costs to be sustainable, the audit team reviewed Pathfinder's quarterly and annual progress reports from the start of the project through September 30, 2014, along with interviews conducted with mission and Bangladeshi Government officials and employees of Pathfinder and its subgrantees. We also reviewed USAID/Bangladesh's data quality assessments of Pathfinder and its grantees conducted in 2013 and 2014.

The audit team judgmentally selected 9 of the 26 local NGO grantees for interviews and site visits. However, due to security and time constraints, we met with the staff of only 8 that are operating 201 of the 330 (approximately 60 percent) NHSDP clinics throughout Bangladesh. In addition, we judgmentally selected 13 clinics operated by those 8 for site visits. The judgmental selection of the NGOs was based on the amount of the award and the number of clinics operated. The selection of 13 clinics to visit was based on the location, type of clinic, and performance. The clinics we chose represented a mix from urban and rural areas, and high- and low-performing clinics in terms of cost recovery.

The audit team interviewed the NGO officials and staff to solicit feedback on the project's activities, internal controls, accomplishments, and challenges, especially in relation to services to the poor and cost recovery. We also visited 13 clinics operated by 8 selected NGOs in the districts of Bogra, Cox's Bazar, Dhaka, Gazipur, Jessore, and Khulna. In the clinics, we interviewed clinic staff and beneficiaries to gather feedback on the project's activities and impact. The audit team randomly checked supporting documentation maintained by Pathfinder, the NGO subgrantees, and the clinics to validate reported results on the selected indicators. We obtained an understanding of the level of fraud awareness among selected staff at each selected location.

To answer the audit objective, we relied extensively on the computer-processed data contained in a Microsoft Access database and Excel spreadsheets maintained by the clinics. Our review of system controls and the results of data tests showed an error rate that casts doubt on the data's validity. However, when these data are viewed with other available evidence, we believe the opinions, conclusions, and recommendations in the report are valid.

MANAGEMENT COMMENTS



August 17, 2015

MEMORANDUM

TO: Mathew Rathgeber, Regional Inspector General, Manila

FROM: Janina Jaruzelski, Mission Director, USAID/Bangladesh /s/

SUBJECT: USAID/Bangladesh response to the Draft Audit Report of the NGO Health Service Delivery Project

USAID/Bangladesh wishes to thank the Regional Inspector General/Manila team for conducting the referenced performance audit of the NGO (nongovernmental organization) Health Service Delivery Project (NHSDP). The Mission recognizes the value of audits as a management tool to further strengthen our programs, and we extend our appreciation to RIG/Manila for the opportunity to comment on this report. The subject draft audit report has been thoroughly reviewed by the Office of Population, Health, Nutrition and Education (PHNE) in collaboration with other offices in the Mission.

The primary objective of the NHSDP is to improve health outcomes for the poor, and the NHSDP carefully balances the needs of the poor with cost recovery. The evaluation of the Smiling Sun Franchise Project (SSFP) in December 2012 determined that the franchise model emphasized the private sector and cost recovery over providing essential health services to the poor. The current project was specifically designed to balance serving the poor and cost recovery, gradually increasing cost recovery from 25 to 40 percent. The rationale for the 40 percent cost recovery is described in the Project Appraisal Document approved in October 2011: “Through this new project, USAID emphasizes service delivery to the poor, with less emphasis on cost recovery, though it is important not to lose the gains that have been made in this area through SSFP.” Moving beyond 40 percent cost recovery would adversely affect the ability of the NHSDP to serve the poor, and it would be a fundamental design change to the project which could require early termination and re-competing the project.

The NHSDP project is achieving results, and there has been significant progress during the first two years of the project. In Year 1, 22,439 total deliveries were recorded; this number increased substantially in Year 2 to 24,675. In Year 1, 1,126,234 antenatal care checkups were provided

during pregnancy and 1,220,260 during Year 2 of the project. Progress towards treating pneumonia cases with antibiotics is notable. In year 1, 141,259 children less than 12 months of age were treated for pneumonia, and 152,124 in Year 2. These achievements demonstrate substantial progress towards meeting USAID's health development objective to improve the health status of Bangladeshis.

There was significant progress during the second year of the project in key components of service delivery including improved service quality, enhanced coverage of the poor, strengthened collaborations, and overall capacity building. At the clinic and NGO levels, key trainings were conducted to build the overall service delivery capacity of providers. Among the achievements, NHSDP successfully implemented the first year of Performance Based Grants, making it the first of its kind in the Bangladesh health sector. The NHSDP focus on meeting the need for quality and reliable data from USAID led to the introduction of new and improved data collection tools at the clinic level which now ensure client-wise service data. Furthermore, key activities were undertaken to increase the service delivery of the Essential Services Package. Conceptual as well as clinical trainings were conducted; these were designed to address services gaps in line with new expansion needs. This included conducting training on interpersonal communications and counseling to 669 clinic managers, counselors and NGO representatives of 329 Smiling Sun clinics (who will then cover rest of the clinic staff and community service providers through a cascaded training approach).

To increase skilled delivery of babies, clinical trainings on safe delivery were conducted for 109 paramedics. Seventy-two clinic managers received orientation on the strategy and operational guidelines for increasing the use of newborn care services and acute respiratory illness while 20 medical officers and monitoring officers were trained on comprehensive newborn care. To promote improved healthy behaviors and practices through behavior change communication and knowledge, 7,581 community clinics have been established which are now actively involved in organizing satellite clinics. Community involvement in maternal survival has been emphasized through the birth preparedness initiative, the Three Days Vigilance model and the red flag initiative.

Strengthened partnership and advocacy with the Government of Bangladesh (GOB) has resulted in the formation of an Advisory Committee. The committee consists of eight relevant ministries under the leadership of the Ministry of Health and Family Welfare in order to provide strategic direction to NHSDP and accelerate the ongoing health and family planning services with an emphasis on reaching the poor in close collaboration with the GOB. Overall, the NHSDP project is performing at or better than expected according to the milestones in the contract and the targets established in the monitoring and evaluation plan.

As set forth in ADS 200.3.1.5, sustainability requires consideration of (1) demonstrable local demand and ownership, (2) building the skills and capacity of local stakeholders, (3) nurturing effective institutions – governmental, civil society and private sector, and (4) activities that are tied to sustainable financing models. The NHSDP is designed to be sustainable and is addressing all of these elements. The first three elements are facets of organizational sustainability. There is demonstrable local demand and ownership of the clinics in the NHSDP. The project is clearly building the skills and capacities of the local clinics through assessments, trainings, development

of procedures and protocols, and implementation of a management information system. Pathfinder International (Pathfinder) is working to strengthen local NGOs so that they can attract direct donor funding by demonstrating solid organizational capacity, the ability to serve the poor and underserved populations, and the ability to raise local funds through service fees to subsidize donor investments.

It is important to note that every project is not required to be fully sustainable at its conclusion. Each project requires a sustainability analysis “with the understanding that not all projects aim to be fully sustainable at their conclusion.” (See ADS 201.3.16.3(c).) The NHSDP project addresses financial sustainability through the target 40 percent cost-recovery rate, gradually increasing cost recovery from 25 to 40 percent, moving along the path to increased financial sustainability.

The Mission is taking steps on the path toward increasing revenues for the health sector. For example, USAID/Bangladesh is heavily involved in the design of the next sector-wide health program. We are engaged with developing health care financing models and moving toward Universal Health Coverage in Bangladesh. This will take some time to enact and will be reflected in the next version of this project.

The following are the Mission’s comments on each of the nine recommendations.

Recommendation 1: We recommend that USAID/Bangladesh require Pathfinder International to develop and implement a comprehensive sustainability plan, which includes other methods to raise program income beyond the 40 percent cost-recovery rate.

Management Comments: USAID/Bangladesh does not concur with the recommendation to raise the program income beyond the cost-recovery rate of 40 percent as a strategy of achieving sustainability. The main objective of the project is to ensure that health services are provided to the poor. As is noted *supra.*, the program has been carefully designed to balance the needs of serving the poor with sustainability, and ADS 201.3.16.3(c) states “not all projects aim to be fully sustainable at their conclusion.” Increasing revenues beyond 40 percent of costs is not a deliverable under this project and would adversely affect the ability of the project to achieve the main objective of serving the poor.

The focus on NGO clinics serving the poor is in concert with the Agency goal of ending extreme poverty. People living in extreme poverty are forced to make impossible choices daily between food, medicine, housing and education. Out-of-pocket medical expenses in Bangladesh are high at 65 percent of income. A focus on achieving greater than 40 percent cost recovery would reduce the ability of the very poor to afford such services, jeopardizing the main project objective of increasing access to health services for the poor, especially the extremely poor. The 40 percent cost recovery target was not chosen randomly. It is based on an earlier iteration of the project that had a higher cost recovery rate which resulted in reduced access to health services by poor people. USAID/Bangladesh is aware of the challenges associated with balancing delivery of subsidized quality health care to the poor and ensuring sustainability of the project. Therefore, USAID/Bangladesh is engaging with other donors, the Government of Bangladesh and the health sector at large to explore additional opportunities and feasible strategies to

enhance programmatic sustainability in subsequent programming without jeopardizing the ability of the poor to access such services.

Program income has been raised in ways other than cost recovery. First, USAID/Bangladesh was instrumental in getting the Smiling Sun Network recognition and certification from the Ministry of Health and Family Welfare to provide approved GOB services in family planning and maternal health, enabling the Smiling Sun Network to directly receive subsidies from the Ministry (family planning supplies and vaccines). USAID/Bangladesh has supported NHSDP to prepare itself as an option for the GOB to outsource key health services to the Smiling Sun Network. If planned correctly, the GOB can channel public funding through the Smiling Sun Network, thereby ensuring coverage to needy populations and ensuring the longevity of the Smiling Sun Network and the NGO healthcare delivery sector as a whole.

Second, during the last two years, USAID/Bangladesh expanded the NHSDP services to urban areas and ensured that the Smiling Sun Network had mixed sources of income including a major \$29 million contribution to the USAID program from the United Kingdom's Department for International Development (DFID). DFID's contribution to the project is contingent on reaching the extreme poor in urban areas. In recent discussions with DFID on sustainability related issues, DFID leadership stated: "I do not believe that achieving 100% cost-recovery is possible within this current project, and I am concerned that, if this was made a target, it would be detrimental to our objectives. DFID's recent annual review of the project recommended that NHSDP should further strengthen their efforts to increase service coverage amongst the poor in local communities." The objective of DFID's contribution over four years to the NHSDP is to improve maternal, newborn and child health and reproductive health in urban Bangladesh, particularly urban slums. These funds will support 20 comprehensive facilities, upgrade existing clinics, expand mobile and satellite clinics, and engage urban community health workers to reach underserved urban areas. This enables access to high-quality healthcare services to a catchment population of several million underserved women and children residing in urban slums. Funds will support monitoring and evaluation and clinic reporting. The DFID contribution is anticipated to support 28,296 assisted deliveries, post natal care for 199,659 women and access to family planning services for 7,629,046 women.

A cost recovery plan to meet the 40 percent benchmark and a business plan to provide guidance to the NGOs to implement 40 percent cost recovery strategies developed in 2013 are in place. They were submitted in December 2013, and it was approved by the Contracting Officer's Representative (COR) in January 2014. The NHSDP cost recovery plan puts greater emphasis on increasing efficiency, expanding the number of clients served, increasing the proportion of the poor served, and improving quality of care and customer satisfaction. The only way to achieve 100 percent sustainability in the context of Bangladesh, or any other low income country, while simultaneously ensuring health services to those unable to pay, is through the provision of Universal Health Coverage as is noted in the Sustainable Development Goals, the proposed follow-on to the Millennium Development Goals. The effort to develop of Universal Health Coverage in Bangladesh has been ongoing for more than a decade and will continue for decades to come.

Research indicates that countries on fast and more equitable pathways to reducing maternal and child mortality have made concerted efforts to ensure that hard-to-reach groups (such as the poor) have access to essential, cost-effective and high impact health services.⁹ In 2012, the NHSDP program increased its coverage and catchment areas and expanded services by expanding the client base, especially for the poor to obtain the Essential Service Package (ESP),¹⁰ promoting optimal healthy behaviors and enhancing local ownership of service delivery. Every phase of USAID/Bangladesh's support to the Smiling Sun Network has strengthened the overall program toward greater coverage and quality of health service delivery towards a path of sustainability.

Recommendation 2: We recommend that USAID/Bangladesh develop and implement procedures to ensure that nongovernment organizations' requests to use program income to expand clinic services are submitted, reviewed, and approved in a timely manner.

Management Comments: USAID/Bangladesh concurs with this recommendation. PHNE will ensure closer communication/collaboration with the USAID/Bangladesh Office of Acquisition and Assistance (OAA) on approval of actions in a timely manner. OAA is currently undergoing a staffing transition. PHNE will work with the new leadership to develop and implement a plan by September 30, 2015 to ensure timely review and approval of requests to use program income.

Recommendation 3: We recommend that USAID/Bangladesh require Pathfinder International to determine how many other clinics have not paid their staff salaries on time, implement a plan to verify that nongovernmental organizations' program income funds are readily available to pay project expenses, and establish procedures to have nongovernmental organizations pay salaries on time.

Management Comments: USAID/Bangladesh concurs with this recommendation. Pathfinder will develop and implement a monitoring plan to ensure salaries are paid on time across all 26 NGOs in the Smiling Sun Network. The monitoring plan, along with an assessment of the number of clinics that did not pay staff on time, will be submitted to USAID/Bangladesh by August 30, 2015. The plan will be implemented upon approval by the COR, and Pathfinder will conduct routine follow up with NGOs to ensure that staff are paid in a timely manner.

Recommendation 4: We recommend that USAID/Bangladesh establish a procedure for timely reviews and approvals of annual project budgets.

Management Comments: USAID/Bangladesh concurs with this recommendation. It is the Mission's agreed upon process to ensure submitted work plans and budgets are approved within 30 days of submission. The delay in approving the expansion plan and corresponding budget was due in part to a heavy staff turnover that PHNE underwent between the time the plan was submitted and its approval. In addition, a proposed expansion plan to be implemented during Year 3 of the project generated several questions and concerns which required several lengthy

⁹ Bangladesh: Innovations for Universal Health Cover- Lancet Series, November 2013

¹⁰ The Essential Service Package comprises of five components and interventions, which are: maternal health, child health, family planning and reproductive health, communicable disease control, and some limited curative care.

consultations prior to approval, between PHNE and OAA and also between USAID/Bangladesh and Pathfinder's local and headquarter offices. These discussions were essential to ensure a logical expansion of services to meet the growing demand for access to comprehensive health services that the project has generated over the first two years of implementation. The Mission will ensure such delays are avoided and will collaborate with its OAA to ensure contingency plans are put in place in case of delays. PHNE and OAA leadership met and agreed on putting in place a review and approval procedure. The procedure will be finalized and implemented by September 30, 2015.

Recommendation 5: We recommend that USAID/Bangladesh require Pathfinder International to work with the NGO grantees to review the training model and implement a plan to address training needs of clinic employees.

Management Comments: USAID/Bangladesh concurs with this recommendation. Pathfinder will review its current training model and complete a training needs assessment in order to develop an NGO training plan to be incorporated into the fourth year of the implementation training plan. The training plan will include methodologies to ensure NGO trainers acquire the appropriate skills to train staff delivering services. Pathfinder will monitor the quality of these trainings. Pathfinder will submit the NGO training plan to USAID by September 30, 2015. Implementation will begin immediately upon approval of the plan by USAID/Bangladesh.

It is important to remember that Pathfinder trained over 3,000 people (1,630 clinicians) in the first two fiscal years of the project. Training will continue to be an issue due to turnover as trained personnel leave for new job opportunities with other organizations and personnel's requests for additional training. In addition, please note that NGO and clinic staff will often request additional training. NGO and clinic employees generally do not take into account on-the-job training, which is the model of capacity building that NHSDP has adopted.

Recommendation 6: We recommend that USAID/Bangladesh require Pathfinder International to review the management information system and data processing procedures developed for the project to verify that the system addresses user needs.

Management Comments: USAID/Bangladesh concurs with this recommendation. Pathfinder developed an electronic management information system which was activated July 1, 2015. All except two clinics are equipped with computers and are utilizing the new system. A data processing guideline and procedures were developed and distributed to all clinics in July 2015. The guideline and procedures are in Bangla (see attached). They are being translated into English. The Mission requests that this recommendation be closed upon issuance of the audit report.

Recommendation 7: We recommend that USAID/Bangladesh require Pathfinder International to set a deadline to complete the translation of the revised Surjer Hashi [Smiling Sun] Management Guideline into Bangla and provide copies of it to all clinics.

Management Comments: USAID/Bangladesh concurs with this recommendation. The English version of the guidelines was approved in June 2015. Pathfinder is working on translating the

English version into Bangla, printing, branding and distributing both CD and hard copies to all clinics by October 31, 2015.

Recommendation 8: We recommend that USAID/Bangladesh require Pathfinder International to check whether clinics are using the revised Surjer Hashi Management Guideline and to incorporate this task into its monitoring process.

Management Comments: USAID/Bangladesh concurs with this recommendation. Pathfinder will include this in its monitoring checklist and will submit the revised checklist to USAID by August 15, 2015. Pathfinder will provide a report on usage of the new guidelines to USAID by December 30, 2015.

Recommendation 9: We recommend that USAID/Bangladesh require Pathfinder International to provide training to clinics on the updated sections of the Surjer Hashi Management Guideline and emphasize the importance of using the guidelines.

Management Comments: USAID/Bangladesh concurs with this recommendation. Pathfinder will include training on guidelines in its year four training plan. USAID/Bangladesh has requested Pathfinder International to conduct training for staff at all 26 NGO clinics no later than December 30, 2015.

The Mission anticipates closing all recommendations on or before April 30, 2016.

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