



OFFICE OF INSPECTOR GENERAL

AUDIT OF USAID/WEST BANK AND GAZA'S PALESTINIAN HEALTH SECTOR REFORM AND DEVELOPMENT PROJECT

AUDIT REPORT NO. 6-294-12-003-P
January 5, 2012

CAIRO, EGYPT



Office of Inspector General

January 5, 2012

MEMORANDUM

TO: USAID/West Bank and Gaza Director, Michael T. Harvey

FROM: Regional Inspector General/Cairo, Jacqueline Bell /s/

SUBJECT: Audit of USAID/West Bank and Gaza's Palestinian Health Sector Reform and Development Project (Report No. 6-294-12-003-P)

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

The report includes eight recommendations to USAID/West Bank and Gaza. Based on actions taken by the mission and supporting documentation provided, management decisions have been reached on all recommendations, and final action has been taken on Recommendations 2, 3, 6, and 7. Please provide the Audit Performance and Compliance Division of USAID's Office of the Chief Financial Officer with evidence of final action to close these outstanding recommendations.

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

CONTENTS

- Summary of Results** 1
- Audit Findings**..... 5
 - USAID/West Bank and Gaza Did Not Establish a Reliable Partnership With the Minister of Health 5
 - Some Reported Results Were Not Reliable..... 6
 - Contractor Reporting of Achievements Was Sometimes Misleading..... 7
 - Contractor’s Vetting Information Was Incomplete..... 9
- Evaluation of Management Comments**..... 11
- Appendix I – Scope and Methodology** 13
- Appendix II – Management Comments** 15

SUMMARY OF RESULTS

The end of Hamas rule in the West Bank in 2007 and the creation of the reconstituted Palestinian Authority Government, committed to the principles of peace and reform, enabled the U.S. Government to resume its development partnership with the Palestinian Authority Ministry of Health. In its 2008 National Strategic Plan, the Ministry of Health established strategic objectives to reorient the health sector from providing “chronic emergency” response to providing integrated, development-oriented health services. USAID is working with the Ministry to bring about this change.

In September 2008, USAID awarded a 5-year, \$56,907,081 contract to Chemonics International to implement the Palestinian Health Sector Reform and Development Project, known as the Flagship Project, to support efforts to reform the Palestinian health sector. USAID/West Bank and Gaza provided supplemental funding of \$28,529,883 in September 2009, bringing the total contract amount to \$85,436,964. Total disbursements for the project as of June 30, 2011, were \$49,459,930. The mission had obligated \$61,526,896 for the project as of June 30, 2011.

USAID/West Bank and Gaza designed the project to strengthen the institutional capacities and performance of the Palestinian Authority Ministry of Health, select nongovernmental organizations, and eligible medical educational and professional institutions to support a functional, democratic Palestinian health sector able to meet its priority public health needs. The project works to achieve this goal through three components:

- Supporting health sector reform and management
- Strengthening clinical and community-based health
- Supporting procurement of health and humanitarian assistance commodities

The project was ambitious and broadly focused. A midterm evaluation of the project, conducted through USAID’s Global Health Technical Assistance Project, highlighted the consequences of the mission’s overly broad approach. The evaluators noted that the project endeavored to strengthen the entire health sector, not just a part of it. The midterm evaluation also noted many ambiguous deliverables that lacked clarity of outcome and complicated project performance. The evaluation further noted:

The problem was compounded in 2009 when the project cost increased by \$29 million and a contract modification simply added more deliverables without clarifying the design. This only increased the pressure to check off deliverables from the list, rather than...to inform the project’s strategic direction.

In response to recommendations in the midterm evaluation published in December 2010, USAID/West Bank and Gaza refined the statement of work in July 2011. Chemonics also drafted a new performance management plan to reflect this new strategic vision.

The Regional Inspector General/Cairo (RIG/Cairo) conducted this audit to determine whether USAID/West Bank and Gaza’s Palestinian Health Sector Reform and Development Project was achieving its main goal of supporting the emergence of a functional, democratic Palestinian health sector capable of meeting the priority public health needs of its people.

The audit found that USAID/West Bank and Gaza’s Palestinian Health Sector Reform and

Development Project was supporting the Palestinian health sector. However, the audit confirmed the midterm evaluation findings that the project's initial lack of focus kept it from achieving core reform efforts. The ambitious project design and large number of deliverables resulted in the project team responding to Ministry of Health requests that may not have been directly in line with the project's strategic vision.

USAID/West Bank and Gaza met its fiscal year (FY) 2010 targets for three out of seven indicators in our sample for which the mission reported FY 2010 results.¹ However, for three of the remaining four indicators, the mission did not meet its targets, and for the final indicator the implementer did not maintain sufficient supporting documentation to determine whether the target had been met. The indicator lacking supporting documentation is discussed in a separate finding (page 6). The other indicators are discussed below.

- The target for the *Number of eligible NGOs receiving capacity-strengthening support* was 20, but Chemonics reported achieving 13. According to the implementer, it missed this target because of the (1) delays in obtaining USAID/West Bank and Gaza's approval of a grants manual (2) unwillingness of NGOs to sign antiterrorism certifications in order to participate in the project and (3) ineligibility of some NGOs for grant support. The implementer indicated it has no plans to work with more NGOs under this activity and has removed this indicator from the draft version of the revised performance management plan.
- The target for *Number of improvements to laws, policies, regulations, or guidelines related to improved access to and use of health services drafted with USG [U.S. Government] support through the Palestinian Health Sector and Development Project* was ten, but the implementer achieved nine. According to USAID/West Bank and Gaza staff members, the implementer missed the target for this indicator because the original target was set based on the assumption that training curricula and training aids would be counted under this indicator. However, a data quality assessment that the mission conducted concluded the curricula and training aids did not fit the indicator definition.
- The target for *Value in USD [U.S. dollars] of procured commodities delivered* was \$17,000,000, but the actual value for pharmaceuticals, medical equipment, and a health information system provided by the project was \$15,625,628. This reported value reflects only commodities delivered to their final destinations, according to the indicator definition. However, the procurement team committed \$17,255,899 in contracts in FY 2010.

Successes at the grassroots level were evident during audit site visits, as highlighted below.

- Doctors using the health information system explained the benefits of being able to see patient files from other hospitals and noted that the automated system is more organized and efficient. The head of registration at a hospital said that the health information system saves time, energy, and effort compared with the paper archiving system. A hospital administrator explained that the use of the electronic system assisted health-care professionals in making informed management decisions.

¹ For the other three indicators in our sample of ten, project officials planned to conduct the relevant surveys at the end of FY 2010 and, therefore, did not report anything.

- The project's champion community was designed to enhance dialogue between citizens and the health sector. One outcome was the formation of the Talluza community clinic board. The board continues operating even though the project contract ended a year ago. According to one board member, the project helped the board focus on the community's health needs, provided the leverage to justify requests for additional clinic space, and provided the impetus for empowering women community members.
- The midterm evaluation highlighted the project's model of coordination, training, and follow-up on the correct use and maintenance of procured equipment; beneficiaries echoed this assessment regarding maintenance being built into contracts and staff receiving training.

While the project team has done much to mitigate problems identified in the midterm evaluation, additional improvement is needed in the following areas:

- USAID/West Bank and Gaza did not establish a reliable partnership with the Minister of Health (page 5).
- Some reported results were not reliable (page 6).
- Contractor reporting of achievements was sometimes misleading (page 7).
- The contractor's vetting information was incomplete (page 9).

To improve the effectiveness of the Palestinian Health Sector Reform and Development Project, the audit recommends that USAID/West Bank and Gaza:

1. Require that procured equipment be released and used for its intended purpose (page 6).
2. Establish mechanisms in the Palestinian Health Sector Reform and Development Project to obtain agreement with the Minister of Health on the implementation of project activities and establish basic rules with the Minister of Health to implement activities in a way that is consistent with the project's goals (page 6).
3. Establish management controls for documentation of significant agreements with implementers and government officials regarding the implementation of project activities for the Palestinian Health Sector Reform and Development Project (page 6).
4. Develop and implement a plan with milestones to establish management controls over documentation and supervisory review of indicator data reported under the Palestinian Health Sector Reform and Development Project (page 7).
5. Verify and correct in writing any errors in the reported data for the Palestinian Health Sector Reform and Development Project and document revisions in the mission's data tracking system (page 7).
6. Establish management controls to verify that Palestinian Health Sector Reform and Development Project publications are accurate and update its published information accordingly (page 9).

7. Determine the extent of the inaccuracies in the implementer's trainee database and require the implementer to correct any information found to be inaccurate (page 9).
8. Require the implementer to establish controls over the accuracy of the data in the trainee database, including regular follow-up on trainees pending antiterrorism vetting (page 10).

Detailed findings follow. Our evaluation of management comments is on page 11. The audit scope and methodology are described in Appendix I, and management comments are in Appendix II.

AUDIT FINDINGS

USAID/West Bank and Gaza Did Not Establish a Reliable Partnership With the Minister of Health

USAID guidance (Automated Directives System [ADS] 201.3.11.7) states that “When contemplating an alliance approach to achieve a result, it is important to conduct due diligence on potential partners. The process of coordinating outputs and results with other entities should begin during operational planning and continue throughout the life of the project.” According to ADS 201.3.11.9, “USAID Missions/[Offices] should ensure that host country governments have major involvement in project and activity planning decisions.”

USAID/West Bank and Gaza did not establish a reliable partnership with the Minister of Health. The results of a mission-contracted evaluation published in December 2010 reported that the mission’s ambitious project design and large number of deliverables lacked clarity about project outcomes. Moreover, according to the mission’s health and humanitarian assistance team and the evaluation results, weak oversight by the mission allowed the project team to respond to Ministry requests that may have not been directly in line with the project’s strategic vision. Consequently, the Minister of Health stated that mission personnel gave him the impression that the project would respond to all of the Ministry’s needs and that USAID should respect the Minister’s control over the health systems. While the new USAID health and humanitarian assistance team leader, who arrived in August 2010, has taken action already to improve the partnership, friction remains and is hindering project implementation.

For example, the team leader and contracting officer’s technical representative (COTR) described a situation where the Minister was holding USAID-procured equipment in storage, and stated that he was doing so to pressure USAID to implement the health information system in the hospital of his choice. The Minister explained that he prioritized the Ramallah hospital over the Hebron hospital to receive the system because he believes Ramallah, the West Bank’s government center, would serve as an important success story for his achievements. The COTR, in contrast, said that it was always the plan to implement in Ramallah’s large medical complex last because doing so would allow the project to expand the system to additional departments in the complex with any cost savings from the previous locations. The COTR said that the technical committee, which includes Ministry of Health personnel and Chemonics staff, determined this sequence. The mission, however, could not provide written documentation of the Minister’s or technical team’s buy-in for the sequence of implementing the health information system.

The unreliable partnership with the Minister of Health developed because of the lack of focus in the original statement of work for the project. USAID/West Bank and Gaza also allowed the relationship to develop in this way by approving whatever the Minister requested, regardless of how the requests fit into the mission’s vision and focus for the project.

To conduct their work, USAID missions establish partnerships with implementers and design programs based on defined strategies and targets. When a mission’s partnership erodes, program achievements are delayed and costs increase, potentially jeopardizing future programs. Continued friction with the minister could undermine the new strategic focus of the

project as defined in the revised statement of work. Since a strategic focus attempts to eliminate ambiguities to promote transparency and foster agreement, deviations can hinder the expedient and efficient provision of the services that a mission is attempting to provide to beneficiaries. Moreover, these deviations and lack of buy-in add risk to the sustainability of project activities. Consequently, the audit makes the following recommendations.

Recommendation 1. We recommend that USAID/West Bank and Gaza require that equipment procured for the Palestinian Health Sector Reform and Development Project be released and used for its intended purpose.

Recommendation 2. We recommend that USAID/West Bank and Gaza establish mechanisms in the Palestinian Health Sector Reform and Development Project to obtain agreement with the Minister of Health on the implementation of project activities and establish basic rules with the Minister of Health to implement activities in a way that is consistent with the project's goals.

Recommendation 3. We recommend that USAID/West Bank and Gaza establish management controls for documentation of significant agreements with implementers and government officials regarding the implementation of project activities for the Palestinian Health Sector Reform and Development Project.

Some Reported Results Were Not Reliable

According to Performance Monitoring and Evaluation TIPS No. 7, "Preparing a Performance Monitoring Plan" (a supplementary reference document for ADS Chapter 203, "Assessing and Learning"), each performance indicator needs a detailed definition. Furthermore, an effective performance monitoring system needs to plan not only for the collection of data but also for data analysis, reporting, review, and use. Additionally, ADS 203.3.4 states, "Performance indicators are used to observe progress and to measure actual results compared to expected results. Performance indicators help answer how or if a USAID Mission[/Office/Team] is progressing towards its objective(s)."

For two of the seven indicators that auditors tested, USAID/West Bank and Gaza's results database contained inaccurate data. For example, for the indicator *Percentage of drafted laws, policies, regulations, or guidelines related to improved access to and use of health services adopted with USG support through the Flagship Project*, the mission reported a result of 58 percent for FY 2010. However, the methodology for calculating this percentage was inconsistent with the methodology for a related indicator: *Number of laws, policies, regulations, or guidelines related to improved access to and use of health services drafted with USG support through the Flagship Project*. Applying the same methodology to both indicators would have yielded a result of 15 of 22 documents, or 68 percent, being adopted for FY 2010.

For another indicator, *Number of participants in community health promotion activities*, the result reported by the mission was 162,083. However, the data supporting this number was unreliable. For example, for July 2010, the reported number of participants agreed with the supporting documentation for only 5 of 12 communities where activities were carried out. For September 2010, only 2 of 21 communities matched the supporting data. For the months of November and December 2009, Chemonics did not maintain detailed supporting documentation. Because of the problems with maintaining adequate supporting documentation,

we could not determine the actual results for this indicator.

Without detailed supporting documentation, Chemonics could not adjust the data to account for the double counting of participants. Thus, the same participant could have been counted multiple times, even within the same month, if the participant attended more than one event. Further, the event count mixes widely varying types of events, ranging from TV/radio spots to health education sessions, all in one indicator, muddling the concept of participation and the definition of “participant.” These limitations on the data being collected further limit the usefulness of the indicator.

The above problems with the data occurred because (1) USAID/West Bank and Gaza did not follow up with Chemonics to ensure that data on the percentage indicator was adjusted based on the adjustment made by the mission to the indicator measuring the related number and (2) Chemonics did not establish adequate controls over the documentation of the indicator data. In addition to the above, although the mission did conduct a data quality assessment, it did not include either of the indicators cited above.

Because of the above weaknesses in collecting indicator data, USAID/West Bank and Gaza is limited in its ability to evaluate the extent to which certain project activities have affected the quality of health-care delivery in the West Bank and Gaza. Data reliability is extremely important to USAID stakeholders—beneficiaries, implementers, managers, and the general public—because major decisions are based on assumptions about the validity of the data. Data publicized in reports and used by different stakeholders to make decisions about budget, funding, project direction, and achieved results must be accurate to produce informed management decisions. To enable the mission to conduct an effective impact evaluation of the project, this audit makes the following recommendations.

Recommendation 4. *We recommend that USAID/West Bank and Gaza develop and implement a plan with milestones to establish management controls over documentation and supervisory review of data reported under the Palestinian Health Sector Reform and Development Project.*

Recommendation 5. *We recommend that USAID/West Bank and Gaza verify and correct in writing any errors in the reported data for the Palestinian Health Sector Reform and Development Project and document revisions in the USAID/West Bank and Gaza data tracking system.*

Contractor Reporting of Achievements Was Sometimes Misleading

According to ADS 203.3.2.1:

Communication allows a USAID Mission[/Office] to tell its story to its various stakeholders and partners, including the host government. For example, sharing performance information with local partners and customers can help mobilize the knowledge and experience of key stakeholders and identify ways to improve results.

Furthermore, the Government Accountability Office's *Standards for Internal Control in the Federal Government* states:

[M]anagement should ensure there are adequate means of communicating with, and obtaining information from, external stakeholders that may have a significant impact on the agency achieving its goals. Moreover, effective information technology management is critical to achieving useful, reliable, and continuous recording and communication of information.

In several instances, Chemonics reported misleading information regarding its accomplishments in progress reports and other promotional information. For example, a consultant report gives the project credit for establishing a residency program in emergency medicine; however, the midterm evaluation reported that this program existed before the start of the project. The mission staff also shared with auditors a document in which Chemonics characterized the health information system as up and running, which was not true at the time. The Year 2 progress report mentions that the implementer held a ceremony inaugurating the health information system in the fourth quarter of FY 2010, yet the FY 2011 work plan clearly laid out the activities still needed before implementation.

The midterm evaluation strongly criticized this practice, saying: "The public relations type of reporting must end . . . [A] less than forthcoming partner can have a serious impact on getting the work accomplished." The COTR discussed the reporting problems with Chemonics following the midterm review and stated that the reporting had subsequently improved. However, while the mission made efforts to minimize overreporting in *written* documentation, the audit noted an example of exaggerated reporting in a video regarding the medical linear accelerator² procured for Augusta Victoria Hospital in Jerusalem at a price of \$4,983,714.

According to the director of the hospital, the linear accelerator will take time to become operational because it requires technical and administrative testing by the Israeli Ministry of Health. Yet the project team developed a video for the inauguration of the linear accelerator, on March 17, 2011, showing a patient using the machine and her family talking about the machine as if they are benefiting from it. This impression is misleading because the linear accelerator was not yet operational or licensed at the time of the audit—5 months after the linear accelerator's inauguration. Nonetheless, the video was still on the home page of USAID/West Bank and Gaza's public Web site.

Mission officials indicated that they believed the linear accelerator would be operational and licensed at the time of inauguration based on information received from Augusta Victoria Hospital and Chemonics. The mission did not perform due diligence, however, to confirm the status and ensure accurate reporting before publicizing the information on its Web site.

Instead of communicating successes, exaggerated reporting hinders true assessment of project accomplishments and analyses on ways to improve performance. The inaccuracy of published information has the potential to diminish the credibility of USAID, its programs, and its implementers. Exaggerating or overreporting results can lead to skepticism and false expectations from beneficiaries. Consequently, the audit makes the following recommendation.

² A linear accelerator is a device that produces high-energy x-rays for use in radiation therapy.

Recommendation 6. *We recommend that USAID/West Bank and Gaza establish management controls to verify that Palestinian Health Sector Reform and Development Project publications are accurate and update its published information accordingly.*

Contractor's Vetting Information Was Incomplete

USAID/West Bank and Gaza's Mission Order 21 states, "For any new awards or extensions of existing awards, the awardee must be vetted if more than 12 months have passed since the awardee was last approved pursuant to these procedures." The mission order further states, "Once an awardee has been approved pursuant to these procedures and received an award, the approval generally will remain in effect for that particular award for three years."

To comply with these requirements, Chemonics established a database of all trainees submitted for vetting. This database records the identification number for each individual and tracks key dates in the process, such as the date submitted to USAID for vetting, the date the trainee was cleared, and the next time vetting will be required.

However, the database had missing information or out-of-date information that could weaken Chemonics' ability to ensure that participants are vetted when required and that eligible individuals can participate in training without delaying project implementation. For example, numerous individuals in the database are shown as pending although they had been found eligible to attend the training. Individuals about whom we asked for more details did not attend the training. For a group of 42 people whose records were submitted in May 2010, the mission had asked Chemonics to provide information that was not provided. While Chemonics personnel stated that they provided the information to the mission, the vetting team at the mission never received the information. Consequently, the individuals were not trained, because of a lack of vetting approval. In other cases, the revetting requirement date entered into the database was over a year after the date when the individuals were cleared. Moreover, in some cases, individuals identified as needing training as part of the project's activities have not been trained.

The weaknesses in maintaining accurate data about its participants occurred because Chemonics did not establish adequate internal control over the information in its trainee database. In addition, USAID/West Bank and Gaza did not verify that the database contained accurate information on individuals attending training under the project.

If data is maintained and not updated as required, it is useless to support management decisions on project direction. Because Chemonics uses the database to track the dates when individuals must be revetted, the inaccurate information in the database could result in individuals attending training without being revetted as required by Mission Order 21. In addition, this information could be used erroneously to support the number of participants trained. Weaknesses in data accuracy also weaken the project's efficiency and antiterrorism efforts. To strengthen the controls over the database and enhance the project's efficiency and antiterrorism efforts, we make the following recommendations.

Recommendation 7. *We recommend that USAID/West Bank and Gaza determine the extent of the inaccuracies in the implementer's trainee database and require the implementer to correct any information found to be inaccurate.*

Recommendation 8. *We recommend that USAID/West Bank and Gaza require the implementer to establish controls over the accuracy of the data in the implementer's trainee database, including regular follow-up on trainees pending antiterrorism vetting.*

EVALUATION OF MANAGEMENT COMMENTS

USAID/West Bank and Gaza provided its comments on our draft report and provided its plan of action for addressing each of the eight recommendations. We have reviewed the response and determined that management decisions have been reached on all recommendations and final action taken on Recommendations 2, 3, 6, and 7.

For Recommendation 1, that procured equipment be released and used for its intended purpose, the mission is pursuing a negotiated resolution of the matter through appropriate diplomatic channels. The mission expects to resolve the matter by June 30, 2012. Therefore, a management decision has been reached on this recommendation, with final action anticipated by June 30, 2012.

For Recommendation 2, to establish mechanisms in the Palestinian Health Sector Reform and Development Project to obtain agreement with the Minister of Health on the implementation of project activities and establish basic rules with the Minister of Health to implement activities in a way that is consistent with the project's goals, the mission established technical and steering committees. Terms of reference for the technical committee were finalized on December 29, 2010. Since the audit, meeting minutes have been distributed to the Minister of Health. The Minister also attended the project's yearly work plan meeting in September 2011. Accordingly, final action has been taken on this recommendation.

For Recommendation 3, to establish management controls for documentation of significant agreements with implementers and government officials regarding the implementation of project activities for the Palestinian Health Sector Reform and Development Project, the mission sent Chemonics an e-mail on November 30, 2011, directing it to start documenting any future decisions regarding significant implementation matters in an implementation letter to each appropriate counterpart. Accordingly, final action has been taken on this recommendation.

For Recommendation 4, to develop and implement a plan with milestones to establish management controls over documentation and supervisory review of indicator data reported under the Palestinian Health Sector Reform and Development Project, the mission has begun developing a new performance management plan, which the mission expects to finish by September 30, 2012. In addition, the mission will begin to conduct semiannual spot checks to review the accuracy and reliability of indicator data. Therefore, a management decision has been reached on this recommendation, with final action anticipated by September 30, 2012.

For Recommendation 5, to verify and correct in writing any errors in the reported data for the Palestinian Health Sector Reform and Development Project and document revisions in the USAID/West Bank and Gaza mission data tracking system, the mission decided to stop using the two indicators referenced in the audit and is no longer reporting on them. The mission will review and correct data errors in its data tracking system by September 30, 2012. Therefore, a management decision has been reached on this recommendation, with final action anticipated by September 30, 2012.

For Recommendation 6, to establish management controls to verify that Palestinian Health Sector Reform and Development Project publications are accurate and to update its published information accordingly, the mission described the approval process. It entails review by the activity manager and the COTR. The mission then asks Chemonics to revise any draft report or document that is felt to be misleading. Upon receipt of the draft finding, the referenced video was immediately withdrawn from the USAID Web site, and Chemonics was asked to remove public links to the video. Accordingly, final action has been taken on this recommendation.

For Recommendation 7, to determine the extent of the inaccuracies in the implementer's trainee database and require the implementer to correct any information found to be inaccurate, the mission directed Chemonics to correct the errors identified by the audit, to review all database entries for the prior 12 months, to report any other inaccuracies found during such review to USAID, and to correct any inaccuracies. This review was completed on November 29, 2011, and the current records are fully accurate. Accordingly, final action has been taken on this recommendation.

For Recommendation 8, to require the implementer to establish controls over the accuracy of the data in the trainee database, including regular follow-up on trainees pending antiterrorism vetting, the mission directed Chemonics to outline a policy and procedures to ensure that (1) the database will be properly maintained and updated regularly so that it has reliable and accurate information on trainees at all times and (2) Chemonics regularly follows up on trainees pending antiterrorism vetting. The COTR directed Chemonics to complete this policy by January 31, 2012. Therefore, a management decision has been reached on this recommendation, with final action anticipated by January 31, 2012.

SCOPE AND METHODOLOGY

Scope

RIG/Cairo conducted this performance audit in accordance with generally accepted government auditing standards.³ Those standards require that we plan and perform the audit to obtain sufficient, appropriate evidence to provide a reasonable basis for our findings and conclusions in accordance with our audit objective. We believe that the evidence obtained provides that reasonable basis. The purpose of this audit was to determine whether USAID/West Bank and Gaza's Palestinian Health Sector Reform and Development Project was achieving its main goal of supporting the emergence of a functional, democratic Palestinian health sector capable of meeting the priority public health needs of its people. No previous audits addressed the areas reviewed.

The scope of the audit covered reported results for FY 2010 as well as revised indicators for FY 2011. RIG/Cairo performed this audit at USAID/West Bank and Gaza and at the office of the implementing partner, Chemonics, from July 27 to September 13, 2011. We also conducted site visits to nine hospitals and clinics and two offices of the Ministry of Health throughout the West Bank. In planning and performing the audit, we assessed internal control related to documentation and data verification, reporting, supervisory and management review, and review of performance measures and indicators. During our site visits, we relied on Chemonics and USAID staff as translators to conduct interviews in Arabic with certain local officials and beneficiaries. Additionally, we relied on staff to translate source documents that supported the reported indicator results.

Total disbursements for the project as of June 30, 2011, were \$49,459,930. The mission had obligated \$61,526,896 for the project as of June 30, 2011.

Methodology

To answer the audit objective, we first identified the project's main goals and significant project risks. We met with key personnel at the USAID mission and at Chemonics and reviewed relevant documentation that they provided. We also reviewed the terms of the contract and applicable policies and procedures. We gained an understanding of the project design and of how USAID planned to monitor and measure the results.

We reviewed compliance by the mission and Chemonics with Executive Order 13224, "Blocking Property and Prohibiting Transactions with Persons Who Commit, Threaten To Commit, or Support Terrorism," and with USAID/West Bank and Gaza Mission Order 21, "Anti-Terrorism Procedures." Our antiterrorism compliance testing included reviews of relevant documentation, such as USAID/West Bank and Gaza's agreement with Chemonics and eligibility notifications for trainees, subcontractors, and grantees. We tested a sample of subcontracts, grantees, and individuals to ensure that USAID/West Bank and Gaza vetted institutions, trainees, and key

³ Government Auditing Standards, July 2007 Revision (GAO-07-731G).

subcontractor personnel to ensure that they met the antiterrorism criteria. We also interviewed the USAID/West Bank and Gaza vetting specialist and the Chemonics vetting specialist.

To verify reported results, we judgmentally selected a sample of 10 indicators from a universe of 21 indicators being tracked at the time in USAID/West Bank and Gaza's reporting system for the project. We traced reported results for the sample indicators to the implementing partner's relevant source documents for FY 2010. We also reviewed the definitions of the indicators in the revised draft performance management plan and evaluated the indicators to determine whether they effectively measured the impact of project activities.

During site visits, we verified the existence of reported deliverables, verified that the project site complied with USAID branding requirements, and observed and discussed the quality of the construction and equipment. We interviewed government ministers, champion community participants, hospital staff, and citizens to determine whether the project was meeting their needs and to learn about their experiences working with the implementing partner and USAID. We also ascertained whether beneficiaries were aware of the source of funding for the projects.

MANAGEMENT COMMENTS



UNCLASSIFIED

Date: December 8, 2011

To: Regional Inspector General, Cairo, Jacqueline Bell

From: Mission Director, USAID West Bank and Gaza, Michael T. Harvey /s/

Through: Deputy Mission Director, Sherry F. Carlin /s/

Subject: Mission's Comments on the Draft Performance Audit Report of the Palestinian Health Sector Reform and Development Project

Draft Audit Report No. 6-294-12-XXX-P dated October 27, 2011

USAID West Bank and Gaza wishes to thank the Regional Inspector General/Cairo (RIG/C) for conducting the referenced performance audit of the Palestinian Health Sector Reform and Development Project ("Project"). The subject draft audit report has been thoroughly reviewed by the Health and Humanitarian Assistance Office (HHA) in collaboration with other offices of the Mission.

Since the referenced performance audit was conducted, the on-going FY 2011 congressional funding hold for the West Bank and Gaza programs has forced a premature de-mobilization of this Project. Twenty-seven staff members have already been terminated, and as of November 29, 2011, the remaining forty-two staff members have received termination notices. If there is no release of funds, the Project will close completely in early 2012. If the program closes, certain corrective actions proposed by Mission management below cannot be implemented. If the project receives funding, Mission management expects a delay of several months before the Project can return to normal operations and accordingly begin implementation of the corrective actions.

The Mission appreciates this opportunity to comment on the draft audit report and the eight recommendations therein as the RIG/C prepares the final report. The following are the Mission's comments on each of the eight recommendations.

Recommendation No. 1:

We recommend that USAID/West Bank and Gaza require that equipment procured for the Palestinian Health Sector Reform and Development Project be released and used for its intended purpose.

Response:

Mission management has always worked closely with the Project to ensure that equipment procured for the Project is used for its intended purpose in accordance with vetting requirements and COGAT approvals. Specifically, equipment decisions for the Ministry of Health (MOH) are made in a Technical Committee that is attended by Project staff, MOH technical staff in charge of medical equipment, and the Director Generals who oversee Primary Health Clinics, Secondary Health Care, and Health Information Systems, as well as the MOH Director for International Technical Cooperation. Over the last twelve months, this Technical Committee has been a successful forum for designing implementation plans.

The computer equipment intended for the MOH Health Information System (HIS) was procured to cover the installation of the HIS system in four districts, including four hospitals and eight PHC clinics per decisions made by the Technical Committee. These decisions are clearly specified in the sub-contract implementation schedule with Dimensions Healthcare, which was finalized in a contract modification in February 2011 (the original contract was signed in January of 2010).

Mission management notes, however, that subsequent to the development of the HIS specific work plan by the Technical Committee, the Minister of Health (Minister) expressed dissatisfaction with the intended schedule of implementation of these activities. As noted in the audit report, some of the equipment to support this activity is being held in storage at the MOH. This equipment is valued at \$265,735 and is the only equipment of the \$15,625,628 of equipment procured by the project that has not yet been used for its intended purpose. Furthermore, the Project, as a result of the Congressional hold, does not have sufficient funds to oversee the full installation of the HIS equipment. Since the equipment was initially placed in storage, the Mission has engaged in extensive discussions with the Minister to agree on the most effective use of the equipment.

The Mission's management agrees with the recommendation as it pertains to the specific computer equipment being held by the Minister. Although the Mission is dedicated to resolving this situation, it cannot require that the Palestinian Authority (PA) take any particular action. Consequently, the Mission is pursuing a negotiated resolution of the matter through appropriate diplomatic channels to ensure that the equipment is used for its intended purposes. The Mission expects to resolve the matter in parallel with its overall Project needs and expects resolution of it by June 30, 2012.

Recommendation No 2:

We recommend that USAID/West Bank and Gaza establish mechanisms in the Palestinian Health Sector Reform and Development Project to obtain agreement with the Minister of Health

on the implementation of project activities and establish basic rules with the Minister of Health to implement activities in a way that is consistent with the project's goals.

Response:

Mission management believes that, while the coordination mechanisms at the start of the Project were insufficient, the Project now has appropriate mechanisms in place to obtain agreement on the implementation of project activities and that basic rules exist with the Minister to implement activities in a way that is consistent with the Project's goals. The mechanisms and rules are described below.

Mission management established a Technical Committee attended by Senior Ministry of Health and project staff to provide technical guidance, oversight, and linkages of the implementation of the Flagship interventions and related MOH interventions to ensure effective coordination. Although the Technical Committee was established at the beginning of the Project, initially it did not meet on a regular basis, which impeded its effectiveness. Beginning in December 2010, the Technical Committee began to meet on a monthly basis and it has proven to be a successful mechanism for sharing information and building a positive partnership with the MOH. The Technical Committee has established Terms of Reference (Attachment A) as the basic rules governing the work of the committee on December 29, 2010. In addition, meeting minutes are kept and distributed to all members and shared with the Minister.

In addition to the Technical Committee, a Steering Committee was also established at the beginning of the Project to meet on a quarterly basis. The Steering Committee mandate is to provide a high-level mechanism that provides strategic input, support and guidance throughout the life of the Project and provides a forum to discuss issues such as project implementation, external communications, key stakeholder involvement, and project support. The Committee is chaired by the Minister and membership includes the Deputy Minister of Health, the MOH Director of International Cooperation, the USAID Director of Health & Humanitarian Assistance, the USAID Senior Health Adviser, and the Chief of Party. As with the Technical Committee, the Steering Committee has established Terms of Reference (Attachment B) governing its functions on November 20, 2008 and keeps and distributes minutes of its meetings to all members and the Minister.

Finally, USAID invites the MOH to the Project's Yearly Work Plan meetings, which representatives of the MOH, including the Minister, attended in February 2011 and again in September 2011. USAID expects to continue to involve the MOH and the Minister in these planning sessions.

Recommendation No 3:

We recommend that USAID/West Bank and Gaza establish management controls for documentation of significant agreements with implementers and government officials regarding the implementation of project activities for the Palestinian Health Sector Reform and Development Project.

Response:

As identified in the response to Recommendation No. 2, Mission management has established mechanisms with the MOH to obtain agreement on the implementation of project activities and basic rules to implement activities in a way that is consistent with the Project's goals. These mechanisms now serve as the management controls for documentation of agreements with implementers and government officials regarding project implementation. Management agrees that the lack of regular meetings and standardized use of these mechanisms in the first two years of the Project led to their not serving as a reliable source of documentation with the Minister. At this time these mechanisms function very well at the technical and Director General level within the MOH and serve as a reliable source of documented agreement.

In order to further strengthen these procedures, Mission management decided that any significant decisions made at Technical and Steering Committee meetings should be documented in an implementation letter. On November 30, 2011, the Contracting Officer Technical Representative (COTR) sent the implementing partner Chemonics an email directing them, effective immediately, to start documenting any future decisions regarding significant implementation matters in an implementation letter to each appropriate counterpart.

Recommendation No 4:

We recommend that USAID/West Bank and Gaza develop and implement a plan with milestones to establish management controls over documentation and supervisory review of data reported under the Palestinian Health Sector Reform and Development Project.

Response:

Mission management agrees and began working with the Project to develop a new Performance Monitoring Plan (PMP) with milestones that establish controls over documentation and supervisory review of data reported under the Project.

An integral component of the plan to review the Project's data is the review and approval of a newly revised PMP containing clearer indicator definitions that are consistent across indicators and that detail the manner in which data is to be collected and analyzed in greater specificity. Given the breadth of the Project interventions and the number of indicators in the Project's draft PMP, this process is on-going. A first draft of the new PMP was received by the Mission on August 21, 2011 and was reviewed by HHA. A comprehensive set of comments were sent by the Mission to the implementing partner Chemonics on October 14, 2011. Chemonics incorporated these comments into a revised second draft that was received by the Mission on November 22, 2011.

In addition, the Mission will begin to conduct spot checks to review the accuracy and reliability of indicator data, which will be set up as a control on a semi-annual basis. These reviews will be conducted by the COTR or other technical members of HHA in partnership with PPDO for all ongoing and future Project activities to ensure that data collected conforms to established data methodologies.

Mission management is confident that the new PMP will result in data being collected and calculated in a consistent manner that yields accurate and reliable results and that satisfies the above recommendation as raised in RIG/C's draft audit report. The Mission expects a finalized revised PMP will be in place by September 30, 2012.

Recommendation No 5:

We recommend that USAID/West Bank and Gaza verify and correct in writing any errors in the reported data for the Palestinian Health Sector Reform and Development Project and document revisions in the USAID/West Bank and Gaza data tracking system.

Response:

Mission Management agrees that data reliability is extremely important. In reviewing the data referenced in the findings, Mission Management discovered that the Project was entering data in Geo-MIS in different fields from those which were being used by PPDO to create data and reports, resulting in many of the discrepancies found during the audit. Chemonics and PPDO have been made aware of this and are now using the proper fields to enter and check data. In reviewing the referenced indicators, Mission management reviewed the methodology and agrees with the audit findings regarding the limitations of the data. Based on these findings, Mission management determined to stop use of the reported two indicators referenced in the audit and is no longer reporting on them. The Mission will review and correct data errors in its data tracking system by September 30, 2012.

Recommendation No 6:

We recommend that USAID/West Bank and Gaza establish management controls to verify that Palestinian Health Sector Reform and Development Project publications are accurate and update its published information accordingly.

Response:

Mission management recognized this issue in September of 2010 and it was noted by the external Mid-Term Evaluation team in December 2010. Mission management agrees that management controls to verify that Project publications are accurate is extremely important. Following the Mid-Term Evaluation, the COTR discussed the identified concerns with Chemonics regarding the "public relations type of reporting" that was taking place and required that Chemonics stop such reporting.

An intensive approval process applicable to written documents and reports as well as video material is in place and closely monitored. All documents are submitted for approval to the COTR. Nothing is posted or made public prior to COTR approval and approvals are followed in a weekly tracker with a numbered system that is reviewed by an Activity Manager and the COTR within USAID. In addition, Chemonics sends a weekly email at the end of each week to highlight priorities which may be time sensitive. Frequent phone calls and meetings take place

between Chemonics reporting staff and the COTR. The Mission asks Chemonics to revise any draft report or document which is felt to be misleading.

Regarding the example of the Emergency Medicine Residence Program, the findings of the Mid-Term Evaluation and the audit are inaccurate. While some clinical components of emergency medical training did exist in the West Bank, the full Emergency Medicine Residency Program was accredited by the Palestinian Medical Council only in December of 2009 as a result of Project efforts (the Project began in September 2008) and the first group of fifteen residents was selected in April 2010.

In reference to the linear accelerator, the Mission did conduct due diligence, including emails with Chemonics and the Augusta Victoria hospital as well as several site visits where the COTR, Activity Manager and other members of the HHA team viewed the installed accelerator. Verbal and written assurances were received from both Chemonics and the Augusta Victoria Hospital that the machine would be licensed by the Israeli authorities and fully operational prior to the launch event. Upon Mission Management's receipt of the draft audit findings, the referenced video was immediately withdrawn from the USAID website and Chemonics was immediately asked to remove public links to the video. The linear accelerator has subsequently been licensed, is now fully operational, and began treating patients on November 14, 2011.

Management believes the approval process mentioned above as well as continued site visits will ensure accurate and updated Project publications.

Recommendation No 7:

We recommend that USAID/West Bank and Gaza determine the extent of the inaccuracies in the implementer's trainee database and require the implementer to correct any information found to be inaccurate.

Response:

The implementing partner Chemonics maintains a trainee database in order to track its own internal compliance with Mission vetting requirements and has sole responsibility for maintaining and verifying the accuracy of that database. While in this case Chemonics has considered this a useful internal management tool, this system was not a requirement under the award and it does not substitute for USAID's requirement that the contractor save separate electronic and hardcopy files of all Partner Information Forms and the eligibility/ineligibility notices, as well as the confirmation emails sent by the COTRs with the vetting approvals which informs their decisions to proceed with providing training to potential individuals. Regardless of any internal system that an implementing partner may establish, it remains the partner's responsibility to ensure compliance with Mission Order No. 21. Maintenance and oversight of internal databases properly rests with the implementing partner and not USAID. Information from this database is neither reported to, nor used by, USAID.

In response to the Auditor's recommendation, USAID directed Chemonics to correct the errors identified by the audit, to review all database entries for the prior 12 months,* to report any other inaccuracies found during such review to USAID, and to correct any inaccuracies. This review was completed on November 29, 2011 and Chemonics confirmed that the review uncovered no new inaccuracies, the current records are fully accurate and consistent with the vetting approvals received from the Mission.

Mission management notes that the auditors' findings in relation to the database did not identify a breach of the vetting rules, and further notes that the delays in clearance did not result in the program implementation being delayed. Instead, they resulted in a small number of individuals being unable to attend the trainings who would have otherwise been eligible. While this is unfortunate, at no time did anyone receive training in violation of Mission Order 21.

Recommendation No. 8: We recommend that USAID/West Bank and Gaza require the implementer to establish controls over the accuracy of the data in the implementer's trainee database, including regular follow-up on trainees pending antiterrorism vetting.

Response:

As discussed in the response to Recommendation No. 7, the implementer's trainee database is not mandated by Mission Order 21, and was introduced by Chemonics to maintain records of its trainees. The Project and the Mission adhere to all clauses of Mission Order 21. It is the responsibility of the implementer to control the accuracy of their internal databases, including regular follow-up on trainees pending antiterrorism vetting.

In response to the audit recommendation, the COTR directed Chemonics to outline a policy and procedures to ensure that (1) their database will be properly maintained and updated on a regular and timely basis to ensure that it has reliable and accurate information on their trainees at all times and (2) Chemonics regularly follow-up on trainees pending antiterrorism vetting. The COTR directed Chemonics to complete this policy by January 31, 2012.

Again, it must be noted that the Mission and Chemonics complied with Mission Order 21 at all times.

* The 12 month period was determined because under Mission Order 21 an individual must be vetted for any new awards if more than 12 months have passed since the awardee was last vetted. Because the Project no longer has any outstanding awards (for which vetting would remain valid for up to three years), the vetting eligibility of any individual in the database would not be longer than 12 months. Hence, a review of the last 12 months would resolve any errors that would be relevant for the Project.

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