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THE HONDURAN FAMILY PLANNING ASSOCIATION
NEEDS STRONGER MANAGEMENT AND FINANCIAL
CONTROLS
USAID/HONDURAS
AUDIT REPORT NO. 1-522-84-7
SEPTEMBER 21, 1984

The Honduran Family Planning Association, which is implementing five USAID/Honduras projects, has more clients than any other family planning organization in Honduras. However, its programs have grown faster than its administrative capability, and it does not have the management and financial controls needed by an organization of its size.

TABLE OF CONTENTS

	<u>Page No.</u>
EXECUTIVE SUMMARY	i
Introduction	i
Audit Scope	i
Conclusions	i
BACKGROUND AND SCOPE	1
Background	1
Objectives, Scope, and Methodology	3
AUDIT FINDINGS, CONCLUSIONS, AND RECOMMENDATIONS	5
Chronic Shortage of Ovral	5
Distribution of Expired Contraceptives	6
Distributors' Potential Conflict of Interest	7
Weak Financial Controls	8
Need to Recover Interest and Ineligible Expenses	11
Need for Improved Reporting and Monitoring	14
Other Matters	16
Conclusions Concerning the Association's Management Ability	18
EXHIBIT I - Status of Honduran Family Planning Association Projects, March 31, 1984	20
APPENDIX A - List of Report Recommendations	21
APPENDIX B - List of Report Recipients	24

ACRONYMS

ASHONPLAFA	Honduran Family Planning Association
CBD	Community-Based Distribution
CRS	Commercial Retail Sales
IPPF	International Planned Parenthood Federation

EXECUTIVE SUMMARY

Introduction

Honduras is a poor country whose population has doubled approximately every 20 years since World War II. Its population growth rate, which USAID/Honduras estimates at 3.3 to 3.5 percent per year, may be the highest in the Western Hemisphere. While approximately 27 percent of married women of reproductive age use contraceptives, there is a large unmet demand for family planning services.

The Honduran Family Planning Association (ASHONPLAFA) introduced the first organized family planning program in Honduras in 1966, and based on its number of clients, is the most effective organization providing family planning services in the country today. ASHONPLAFA's 1984 budget is about \$2.2 million, of which about 58 percent, or \$1.3 million is direct AID support. It has almost 150 employees and over 1,000 unsalaried distributors who receive commissions on contraceptive sales. Its budget and staff have grown tremendously in recent years. ASHONPLAFA's management and administrative systems have not kept pace with the growth of its programs, however, and we believe that its ability to absorb additional resources is limited.

USAID/Honduras first began supporting ASHONPLAFA in August 1980, and now has five active grant agreements with the organization. AID life-of-project contributions for these five projects total about \$2.4 million. AID assistance funds subsidized contraceptive sales through community-based distributors (who receive commissions on their sales), subsidized contraceptive sales through commercial outlets, voluntary sterilization procedures, information and education activities, expansion of ASHONPLAFA's headquarters/clinic in Tegucigalpa, and strengthening of ASHONPLAFA's administrative and management capabilities.

Audit Scope

This, our first audit of ASHONPLAFA's activities, was undertaken in response to a request from the Director, USAID/Honduras. In accordance with his request, our objectives were to determine how well ASHONPLAFA is managing its present resources, and to assess its ability to effectively absorb additional resources. We conducted the audit in Washington, D.C., Tegucigalpa, and selected project implementation sites in Honduras, covering activities from the beginning of AID support on August 29, 1980 through July 1984. We made our review in accordance with the Comptroller General's Standards for Audit of Governmental Organizations, Programs, Activities, and Functions.

Conclusions

In spite of the management and internal control weaknesses we found, ASHONPLAFA's programs have achieved considerable success. For example, it has increased the number of contraceptive users in its Community-Based Distribution

program to about 40,900, a 58 percent increase since AID support began in 1980. In 1983, it performed or supported 6,620 voluntary sterilization procedures, an increase of 76 percent over 1980. ASHONPLAFA has also begun to distribute contraceptives through commercial outlets, which should prove to be a low-cost means of increasing contraceptive use.

Yet, its programs have grown faster than ASHONPLAFA's management and administrative capabilities. ASHONPLAFA's managers frequently seem to lack problem-solving ability, and they have not developed the personnel and financial management systems needed by an organization of its size. Our report contains seven recommendations to help USAID/Honduras solve these problems.

The effectiveness of ASHONPLAFA's Community-Based Distribution program has been diminished by a chronic shortage of Ovral (a popular contraceptive). In addition, many of the program's distributors also work for the Ministry of Health, where their duties include distributing contraceptives gratis. This situation creates the potential for theft of Ministry of Health contraceptives because the distributors have an established means for selling contraceptives from their homes, and may exacerbate tensions between the Ministry of Health and ASHONPLAFA. For several years, ASHONPLAFA has recognized the problems concerning the short supply of Ovral and the distributors' potential conflict of interest but has not taken effective action to solve them, illustrating an apparent inability to solve known problems.

We also found that a contraceptive foam which had passed the manufacturer's recommended shelf life was distributed for more than two years. ASHONPLAFA was remiss in that it did not know that the product had expired, and in that it continued distribution for six months after it was informed by AID that the product had expired.

ASHONPLAFA has not developed financial management policies and procedures appropriate to an organization of its size, and we found a number of significant internal control deficiencies:

- ASHONPLAFA needs to update and complete written accounting policies and procedures.
- Counterpart contributions and reinvestment of contraceptive sales revenues are not readily verifiable.
- AID advances have been commingled with other donor funds.
- ASHONPLAFA has earned interest on AID funds which it has not refunded to AID.
- As a result of weak financial controls, ASHONPLAFA has requested and received reimbursement for travel advances that were not properly liquidated, other unsupported costs, local taxes, and non-project related costs.
- Regular cash counts of petty cash funds have not been conducted.

We also found a need for closer monitoring by USAID/Honduras and ASHONPLAFA management, to ensure that counterpart contribution requirements are met, and that contraceptive sales revenues are used in accordance with the grant agreements. More accurate and useful information on program efficiency and effectiveness should be included in reports on the Community-Based Distribution program.

Finally, we noted that (1) ASHONPLAFA has not implemented a June 1983 recommendation (among several others included in studies of its operations since it began receiving AID support) that it develop written personnel and salary guidelines, and (2) some supplies in ASHONPLAFA's central warehouse are not adequately controlled because no records are kept of entries, issues, and the balance on hand.

ASHONPLAFA's management capabilities can be strengthened through additional training and technical assistance. We also see a need for closer monitoring and involvement by USAID/Honduras, to help ASHONPLAFA carry out its present responsibilities.

We found no indication that ASHONPLAFA has engaged in activities proscribed by the Foreign Assistance Act.

Management Comments

USAID/Honduras stated that in general our draft report was fair and accurate, and would assist the Mission in improving the management performance of ASHONPLAFA. The Mission made specific comments on several of our recommendations, which are included in the report.

BACKGROUND AND SCOPE

Background

The Honduran Family Planning Association (ASHONPLAFA) is a private voluntary organization funded almost entirely by international donors including AID. ASHONPLAFA introduced the first organized family planning program in Honduras in 1966, and is still the major provider of family planning services in the country.

Family Planning Environment

Honduras is a poor country with a predominantly rural population of about four million. Its population has doubled approximately every twenty years since World War II. The population growth rate, which USAID/Honduras estimates at 3.3 to 3.5 percent per year, is high by worldwide standards and may be the highest in the Western Hemisphere. Because of a high fertility rate, estimated at seven births per woman, a very large proportion of Honduras' population is young. In 1982, about 48 percent of the population was under fifteen years of age: double what it is in the United States. This creates population growth momentum, even if fertility rates are reduced, as these young people enter their reproductive years and produce children. In 1981, only 27 percent of married women of reproductive age used contraceptives, even though 68 percent reportedly did not want to have more children.

Traditionally, there has been little support for family planning in Honduras, due to religious opposition, persistence of traditional male and female roles, relatively low population density, and other factors. Within the last two years, however, attitudes toward family planning have become much more favorable, and the Government of Honduras has shifted from passive acceptance to active support of family planning.

ASHONPLAFA's Programs

AID signed the first of eight grant agreements with ASHONPLAFA on August 29, 1980, following the collapse of the AID-financed Ministry of Health family planning program in the late 1970s. Currently five projects are active, with a total of about \$2.4 million in budgeted AID funds. The purposes of the five projects are:

- Family Planning Service Delivery Support (522-0225) -- to finance the sale of contraceptives at subsidized prices through community-based distributors who receive a commission on their sales, and to increase availability of voluntary sterilization services.
- Commercial Retail Sales (522-0201.1) -- to support the sale of contraceptives through commercial outlets, at subsidized prices.
- Headquarter Clinic Expansion (522-0201.2) -- to finance renovation of ASHONPLAFA's Tegucigalpa clinic/headquarters, improving administrative efficiency and increasing the number of clients receiving family planning services.

- Leadership Education (522-0240) -- to create an informed Honduran leadership willing to make appropriate decisions regarding family planning in Honduras.
- Project Development and Support (Population) (522-9104.1) -- to strengthen ASHONPLAFA's ability to administer rapidly growing programs, through additional staff, technical assistance, and training.

Additional information on AID's projects with ASHONPLAFA is presented in Exhibit I.

ASHONPLAFA's programs are carried out by six departments: Community Distribution, Medical and Clinical Services, Social Marketing (contraceptive retail sales), Information and Education, Evaluation, and Administration. Its 1984 budget is about \$2.2 million, of which about 58 percent (\$1.3 million) is direct AID support. ASHONPLAFA also receives major funding from the International Planned Parenthood Federation (IPPF) and the International Project of the Association for Voluntary Sterilization, and lesser amounts from other international donors. Roughly 4 percent of ASHONPLAFA's income comes from local sources.

ASHONPLAFA has experienced tremendous growth in recent years. Its budget has increased twelvefold in the last ten years; 154 percent since AID support began in 1980. In 1978, ASHONPLAFA had 67 employees. Now it has 146 employees, an increase of 118 percent. Until 1975, ASHONPLAFA provided services only through two clinics, one each in Tegucigalpa and San Pedro Sula. Now its activities reach many smaller cities and rural areas, and include:

- contraceptive distribution and/or voluntary sterilization services through its two clinics, thirteen government hospitals, and three private hospitals;
- community-based distribution of contraceptives through more than 1,000 distributors;
- contraceptive sales through commercial outlets; and
- information and education activities.

Since AID support to ASHONPLAFA began in 1980, the organization has demonstrated success in increasing the availability of family planning services in Honduras. In the first quarter of 1984, ASHONPLAFA provided about 40,900 users with contraceptives through its CBD program; an increase of 58 percent over 1980. In 1983, ASHONPLAFA performed or supported 6,620 voluntary sterilizations, an increase of 76 percent over 1980.

Yet, management improvements are needed to increase the effectiveness and efficiency of ASHONPLAFA's programs, to safeguard its assets, and to ensure that AID funds are used in accordance with the grant agreements.

Previous Evaluations

In 1983 and 1984, five different organizations evaluated various aspects of ASHONPLAFA's operations. In addition, Centers for Disease Control staff have conducted biannual evaluations of ASHONPLAFA's Community-Based Distribution (CBD) program since at least 1979. These consultants reported, and often reiterated, a number of management problems.

- A 1983 International Planned Parenthood Federation study concluded that ASHONPLAFA had an improvised, if not paternalistic, management system. The organization had few formal standards or procedures, and the Executive Director delegated little authority to the department chiefs.
- Several studies, beginning in 1982, have discussed the chronic shortage of Ovral (a popular oral contraceptive) in the CBD program. Officials we interviewed agree that this shortage has caused users to leave the program.
- Several studies in 1983 found that CBD promoters' morale was low, since they received only a 5 percent cost-of-living increase in 1983, and other ASHONPLAFA staff received a 15 percent increase.

According to USAID/Honduras' Health/Population Development Officer, the problem with the promoters' pay raise has been resolved, but as is discussed in following sections of this report, we believe that the other problems continue to limit the efficiency and effectiveness of ASHONPLAFA's operations.

Objectives, Scope, and Methodology

In response to a request from the Director, USAID/Honduras, the Office of the Regional Inspector General for Audit/Latin America conducted a management assessment of ASHONPLAFA, covering activities from the beginning of AID support on August 29, 1980 through July 1984. This is our first audit of ASHONPLAFA, although several other organizations have evaluated various aspects of ASHONPLAFA's operations.

Because USAID/Honduras recognizes the critical nature of population increase in that country and would like to help ASHONPLAFA expand its role in limiting it, our objectives were to determine how well ASHONPLAFA is managing its present resources, and whether it could effectively absorb additional resources. We did not conduct a detailed evaluation of each of USAID/Honduras' projects with ASHONPLAFA, however.

To accomplish these objectives, we reviewed pertinent files and interviewed officials in AID/Washington, USAID/Honduras, ASHONPLAFA, the International Planned Parenthood Federation, and the Centers for Disease Control, Public Health Service. We selectively tested ASHONPLAFA's financial records, selectively reviewed documents supporting AID reimbursements, and performed other reviews and tests we considered necessary.

We discussed our findings and conclusions at exit conferences with USAID/Honduras and ASHONPLAFA officials, and we submitted a draft report for Mission comment. All Mission comments were considered in finalizing our report.

We made our review in accordance with the Comptroller General's Standards for Audit of Governmental Organizations, Programs, Activities, and Functions.

AUDIT FINDINGS, CONCLUSIONS, AND RECOMMENDATIONS

Chronic Shortage of Ovral

For several years, the CBD program has suffered from a shortage of Ovral, a popular oral contraceptive supplied by IPPF. IPPF allocates about 40,000 cycles ^{1/} of Ovral to ASHONPLAFA each year, but according to a consultant from the Centers for Disease Control, this represents only about one-third of ASHONPLAFA's requirements. Officials inside and outside ASHONPLAFA are nearly unanimous in the opinion that the shortage of Ovral causes users to leave the CBD program, but no action has been taken to solve this persistent problem. According to its Executive Director, ASHONPLAFA has repeatedly requested more Ovral from IPPF, but it has not been responsive. A USAID/Honduras official told us that the Mission might be able to provide additional financial assistance to solve this problem, but ASHONPLAFA had not discussed the shortage of Ovral with him.

Ovral apparently enjoys a quality image among CBD users because it is also sold commercially in Honduras, and because it is the most expensive oral contraceptive sold by CBD distributors. When distributors run out of Ovral, which happens frequently, users who can afford to are able to buy Ovral from commercial pharmacies. Others may switch to another oral contraceptive (which can cause side effects), switch to another birth control method, or stop practicing birth control.

Because Ovral is an established, popular contraceptive among CBD users, the best solution to this problem would be for IPPF to supply more Ovral to ASHONPLAFA. USAID/Honduras Health/Population Development Officer told us that the shortage of Ovral was discussed with IPPF officials visiting Honduras in July 1984. He is confident that IPPF officials now understand the problem and will take appropriate action. He said that IPPF is considering requesting more resources from AID/Washington or charging users more for Ovral so that IPPF can recover more of its costs. In addition, the Director of the Human Resources Development Office told us in June 1984 that USAID/Honduras might be willing to underwrite more of ASHONPLAFA's administrative expenses, freeing IPPF resources to buy more Ovral.

If IPPF cannot ensure an adequate, stable supply of Ovral, we believe that Ovral can be replaced with Femenal, the generic equivalent of Ovral supplied by AID through its central procurement program. While it does not have the name recognition of Ovral, ASHONPLAFA's Region II supervisor believes that with proper promotion it would be a good replacement. If the CBD distributors sell Femenal at the same price as Ovral, and are properly trained to explain that it is the same drug with a new name, we see no reason why Femenal would not have the same quality image as Ovral.

^{1/} One cycle represents a little less than one month's supply per user since a woman uses 13 cycles per year.

However, Femenal is not registered for distribution with the Honduran College of Chemistry and Pharmacy. According to the Executive Director, ASHONPLAFA has not registered the drug because only commercial distributors can register drugs with the College. In June 1984, the Director of the Human Resources Development office told us that USAID/Honduras would probably be willing to reimburse ASHONPLAFA if it hired a commercial distributor to register Femenal.

Conclusion

The shortage of Ovral is a well-known, long-standing problem which has diminished the CBD program's effectiveness. This situation, like several others discussed in this report, illustrates ASHONPLAFA's apparent inability to solve known problems.

Recommendation No. 1

USAID/Honduras:

- a) monitor IPPF's progress and determine whether it can provide ASHONPLAFA with an adequate, stable supply of Ovral; and
- b) if IPPF cannot ensure an adequate, stable supply of Ovral, take action to register and supply Femenal to ASHONPLAFA.

Management Comments

USAID/Honduras stated that IPPF has agreed to supply adequate stocks of Ovral to ASHONPLAFA, and that this agreement will be confirmed in writing. Thus, the Mission believes that it will not be necessary for ASHONPLAFA to register and stock Femenal as a replacement oral contraceptive.

Distribution of Expired Contraceptives

For two and a half years, ASHONPLAFA distributed a contraceptive foam which had exceeded the manufacturer's recommended shelf life. ASHONPLAFA apparently was not aware that the product had expired, and when it was so advised, did not act effectively to stop distribution. As a result, many of ASHONPLAFA's clients have had questionable assurance of protection against unwanted pregnancies.

ASHONPLAFA's entire stock of contraceptive passed the manufacturer's recommended three-year shelf life in December 1981. From January 1982 through March 1984, ASHONPLAFA distributed roughly 4,200 tubes of the foam through its clinics and its CBD Program, and donated an additional 2,016 tubes to a family planning organization in Guyana. According to the Chief of the CBD program, there were some additional sales from April through June 1984, but sales data for this quarter are not yet available.

According to the CBD Program Chief, ASHONPLAFA distributed most of the expired foam because its staff did not know how to decipher the coded manufacture date on the product box. In November 1983, two consultants from the Centers of Disease Control were able to ascertain that the product expired in December 1981. In a letter dated December 7, 1983, USAID/Honduras advised ASHONPLAFA to destroy the expired product as soon as possible, but ASHONPLAFA continued to distribute the product for more than six months. ASHONPLAFA was negligent in that, if it did not know when the product expired it should have found out, and it should have acted more quickly to stop distribution after it received the letter from AID. Because ASHONPLAFA did not take appropriate action in either case, many of its clients have been using a birth control product which has questionable assurance of effectiveness.

Conclusion

ASHONPLAFA's distribution of expired contraceptive foam is of some concern because it seems to show that ASHONPLAFA's management does not understand the seriousness of distributing expired contraceptives. It also demonstrates that controls to prevent distribution of expired contraceptives are inadequate.

Recommendation No. 2

USAID/Honduras:

- a) obtain documentation from ASHONPLAFA demonstrating that all expired contraceptive foam has been retrieved from the distribution system and destroyed;
- b) obtain further documentation to the effect that ASHONPLAFA has developed and communicated to its staff a written policy which (i) provides for a routine positive determination of the expiration date for all contraceptives it distributes, and (ii) prohibits distribution of expired contraceptives; and
- c) ensure that ASHONPLAFA receives a fresh supply of contraceptive foam.

Distributors' Potential Conflict of Interest

Some distributors in the CBD program also work for the Ministry of Health as auxiliary nurses, where their duties include dispensing free contraceptives. USAID/Honduras estimates that perhaps 300 CBD distributors also work for the Ministry of Health as auxiliary nurses, but the Chief of the CBD program believes the number is only about ninety. No firm figures are available. These distributors should be replaced by other qualified persons in their communities, because the present situation creates the potential for referral

of Ministry of Health clients to the CBD program, or theft of Ministry of Health contraceptives. ASHONPLAFA distributors make a commission on contraceptives sold through the CBD program; thus, the temptation might exist to refer Ministry of Health clients to the CBD program. This could exacerbate tensions between the two organizations, which apparently see themselves as competing for clients. Also, because the distributors have an established means for selling contraceptives from their homes, the temptation might exist to take Ministry of Health contraceptives and sell them for profit to CBD clients.

According to the Chief of the CBD program, ASHONPLAFA recognized the potential problems with using auxiliary nurses as distributors as early as 1979. However, it was not until June 18, 1984, after we began our field work, that she advised the CBD supervisors in writing to begin replacing distributors who also work as auxiliary nurses. ASHONPLAFA has not developed a plan for replacing the distributors because it has not decided how quickly they should be replaced.

Conclusion

ASHONPLAFA should replace distributors who also work for the Ministry of Health, to reduce the possibility of theft of Ministry of Health contraceptives and referral of Ministry of Health clients to the CBD program. ASHONPLAFA was aware of these potential problems for nearly five years before it began to take corrective action. This is another case in which ASHONPLAFA seems unable to solve known problems in a timely manner. Of course, the distributors should be replaced in a way that minimizes the impact on CBD contraceptive users.

Recommendation No. 3

USAID/Honduras obtain from ASHONPLAFA a plan including dates for replacing Ministry of Health auxiliary nurses in the CBD program, and monitor ASHONPLAFA's progress in carrying out this plan.

Management Comments

USAID/Honduras agrees that a plan should be developed which spells out how, and over what period of time, the auxiliary nurses will be replaced. The Mission's concern is to balance the potential abuses that might result under the present system with the legitimate requirement to avoid disrupting the CBD program and to maintain steady growth in the numbers of family planning users. We agree that the auxiliary nurses should be replaced in a way that minimizes the impact on the CBD program, and we have included language to this effect in the conclusion preceding our recommendation.

Weak Financial Controls

ASHONPLAFA, which now has an annual budget of about \$2.2 million, lacks adequate financial controls in several areas. Specifically, ASHONPLAFA does not

have written accounting procedures, it has commingled AID and other donor funds, and it does not adequately control petty cash.

Lack of Written Accounting Procedures

Written accounting procedures are a basic element of financial control. Without them, it is extremely difficult to ensure that transactions are recorded accurately and consistently. ASHONPLAFA does not have such procedures, apparently because its Administrator believed that he should leave ASHONPLAFA's administrative systems as he found them when he assumed the position. ASHONPLAFA has grown rapidly in recent years; however, in this case and others we found a reluctance to develop the more formal administrative systems needed to support this growth.

ASHONPLAFA's Administrator and Chief Accountant agree that written policies and procedures are needed. They indicated to us that they are willing to develop an accounting manual with technical assistance from one of ASHONPLAFA's donors.

Commingling of Funds

ASHONPLAFA has commingled AID advances, other donor funds, and income from its CBD and Commercial Retail Sales (CRS) programs, despite grant agreement provisions which prohibit commingling these funds. As a result, it is difficult for both AID and ASHONPLAFA to verify that funds have been spent in accordance with the grant agreements. These funds have been commingled because (1) ASHONPLAFA officials are apparently not familiar with all the grant agreement requirements; (2) the responsible officials were aware of the requirement to establish a separate account for CRS income, but ignored it; and (3) officials felt justified in "borrowing" money from one account to cover overdrafts in another.

AID's grant agreements with ASHONPLAFA provide that AID funds must not be commingled with other grantee owned or controlled funds, and that the grantee must deposit all AID cash advances in a separate bank account and make all disbursements from this account. The grant agreement for the CRS program (project number 522-0201.1) provides that the grantee will deposit and maintain all income from the sales of contraceptives in a separate non-interest bearing account. It also provides that revenues will be used to defray operating expenses of the project, with prior approval from AID. While the agreements do not mandate a separate bank account for CBD revenues, ASHONPLAFA is required to reinvest these revenues in the CBD program, and using a separate bank account would greatly facilitate monitoring compliance with this requirement.

ASHONPLAFA has established special bank accounts for both AID advances and revenues from the CBD Program, but it has transferred funds between these and its other bank accounts to the extent that the intended control is ineffective. For example, in the last six months of 1983, ASHONPLAFA transferred about \$100,000 into, and about \$112,000 out of the AID bank account. During the same six months, it transferred about \$30,000 in CBD revenues to its other

bank accounts. It has also commingled \$3,000 in AID funds with other funds in the Executive Director's revolving fund. Finally, ASHONPLAFA has not established the separate bank account required by the CRS agreement: instead, it has deposited revenues from the program (about \$13,000) in its general checking account, where it has also commingled AID and other funds.

Because AID advances and CBD revenues have been commingled with other funds, it is difficult to determine whether they have been spent in accordance with the grant agreements (see, for example, the discussion on interest, pages 11-12, and the discussion on CBD revenues, pages 14-15). Because CRS income was deposited in ASHONPLAFA's general account, and disbursements were subsequently made from that account, it is difficult to say whether or not ASHONPLAFA has spent these revenues without prior AID approval.

At this point, AID advances and CBD revenues have been commingled with other funds to the extent that it would be extremely difficult to reconcile all the transfers and restore funds to their proper accounts. A more practical solution would be to open new accounts for both AID advances and CBD income, and deposit new receipts in these accounts, establishing proper control from that time forward. Because only one deposit of CRS income has been made, it is a relatively easy matter to open a separate bank account and transfer the CRS income to that account. Of course, establishing new accounts will accomplish nothing if ASHONPLAFA does not adhere strictly to a policy of segregating these three sources of income.

While ASHONPLAFA is ultimately responsible for complying with the grant agreements, we believe that the extensive commingling of funds we found demonstrates a need for USAID/Honduras staff to discuss in detail with ASHONPLAFA staff the various grant agreement requirements, and to impress on ASHONPLAFA the importance of complying with the agreements.

Poor Control Over Petty Cash

ASHONPLAFA has ten petty cash funds worth a total of \$1,500 (of which \$450 comes from AID). We conducted cash counts of five of the funds and found that four had excesses, totaling about \$36, because persons responsible for the funds kept personal funds with the petty cash. This situation exists because ASHONPLAFA has not conducted regular cash counts: the last count of the funds in San Pedro Sula was conducted in November 1983, and ASHONPLAFA's Administrator and Chief Accountant could not recall when the last cash counts of the funds in Tegucigalpa were conducted. We believe that cash counts should be conducted regularly -- perhaps monthly -- and that personal funds should not be kept with petty cash.

Conclusion

ASHONPLAFA's financial controls are not adequate to ensure that AID funds are segregated in accordance with the grant agreements. In some cases, ASHONPLAFA's Administrator was aware of procedural deficiencies but did not believe he had the authority to correct them. In other cases, ASHONPLAFA's

administrative staff either ignored or were not familiar with some of the grant agreement requirements, demonstrating the need for USAID/Honduras staff to review these requirements with ASHONPLAFA to be sure that they are understood and complied with. USAID/Honduras should see that ASHONPLAFA has a Spanish translation of the current standard provisions for operational program grants.

Recommendation No. 4

As a condition of executing new agreements with ASHONPLAFA, USAID/Honduras:

- a) assist ASHONPLAFA in developing an accounting manual that will provide control over resources;
- b) require ASHONPLAFA to establish three separate bank accounts for AID funds, CBD income, and CRS revenues, and periodically verify that ASHONPLAFA properly segregates income from these three sources;
- c) obtain documentation showing that regular cash counts of ASHONPLAFA's petty cash funds are being conducted; and
- d) provide ASHONPLAFA with a Spanish translation of the current standard provisions for operational program grants.

Management Comments

In our draft report, implementation of Recommendation No. 4 was to be a condition of continued assistance to ASHONPLAFA. We adopted USAID/Honduras' suggestions that implementation be made a condition of executing new agreements with ASHONPLAFA, and that language be added requiring the Mission to provide ASHONPLAFA with a Spanish translation of the current standard provisions for operational program grants. We also accepted the Mission's proposed wording for Recommendation No. 4 (a).

Need to Recover Interest and Ineligible Expenses

As a result of weak financial controls, ASHONPLAFA has earned interest on AID funds which it has not refunded to AID, and received reimbursement for unsupported and unallowable expenses. Through a review of three reimbursement vouchers, we found \$9,751 in unsupported and unallowable costs. Because reliable records were not available, we could not determine the exact amount of interest income due AID, but we estimate that the total amount could be \$12,000 to \$28,000.

Interest Earned on AID Funds

ASHONPLAFA has earned interest on AID funds, which by the terms of the grant agreements must be refunded to AID. The interest income has not been refunded to AID, possibly because the responsible officials were not familiar with this requirement.

AID's grant agreements with ASHONPLAFA provide that any interest earned on AID funds should be returned to AID. ASHONPLAFA officials told us that they had never earned interest on AID funds, but were unable to document the source of interest income shown in their audited financial statements. Later, we obtained a schedule prepared by ASHONPLAFA's former Chief Accountant, which shows that AID funds for operating costs and social benefits were invested in a certificate of deposit in 1981 and 1982. We were also able to establish that these AID funds continued to earn interest during 1983 and 1984, but due to the lack of reliable records, we could not calculate the exact amount of interest earned. However, we estimate that the total amount to be refunded to AID could be roughly \$12,000 to \$28,000.

To calculate the exact amount due AID, one must first document the source of funds on which ASHONPLAFA earned interest from the beginning of AID support in 1980 to the present. This may not be possible, due to commingling of AID and other funds (discussed above, pages 9-10), the passage of time since AID funds were first invested, and other factors. If ASHONPLAFA cannot provide the required documentation, AID would be justified in seeking recovery of a pro-rata portion of ASHONPLAFA's interest income, based on AID and other donor contributions to ASHONPLAFA. This portion would amount to about \$28 thousand through June 30, 1984.

Because the former accountant was outside the country during the audit, we could not determine whether he was aware that the interest had to be returned to AID. At any rate, USAID/Honduras staff should ensure that this grant agreement provision is understood by ASHONPLAFA administrative officials, and recover any interest income due AID.

Exceptions to Reimbursement Vouchers

We reviewed the supporting documents for three reimbursement vouchers (numbers 522-83-1322, 84-360 and 84-1353) worth a total of \$148,576. We found that \$9,751 was ineligible for payment by AID, and we questioned an additional \$1,413. Almost all of the ineligible costs represent travel advances which had not been liquidated, but which were classified as expenditures and billed to AID. The results of our review demonstrate that ASHONPLAFA needs to strengthen its controls over travel advances, and that a payment verification of ASHONPLAFA reimbursement vouchers should be accomplished.

We classified as ineligible and questioned the following expenses for which ASHONPLAFA requested and received reimbursement from AID.

Travel advances not liquidated	\$9,646
Other unsupported costs	50
Non-project related costs	38
Local taxes	17
Total ineligible costs	<u>\$9,751</u>
Check Nos. 5957, 5958 and 6600	\$780
Check No. 6802	633
Total questioned costs	<u>\$1,413</u>

According to ASHONPLAFA's Administrator, employees are required to file trip reports, which could be used as a basis for liquidating travel advances. However, his office is often unable to obtain these reports from other departments. As a result, for \$9,646 of travel advances, he could not document that any of the trips were actually taken. He acknowledged that this is a serious internal control problem.

The \$1,413 of questioned costs represent two line items. First, ASHONPLAFA requested reimbursement for three separate expenditures (check numbers 5957, 5958, and 6600), but requested reimbursement for the total amount in the voucher under check number 6600. USAID/Honduras should verify that it has not separately reimbursed these costs. Second, in its written response to our exceptions, ASHONPLAFA maintains that it showed us documents supporting costs paid with check number 6802, but our records indicate that it could not support \$633 of the \$877 paid. ASHONPLAFA should submit any supporting documents it has to USAID/Honduras for verification.

In mid-1981, USAID/Honduras allowed ASHONPLAFA to stop submitting supporting documents with its reimbursement vouchers, intending to perform payment verification later. However, because of a lack of resources, no verifications were done until we performed our review. We reviewed only three of the 58 reimbursement vouchers paid as of May 31, 1984, and we recognize that this cannot be considered a representative sample. However, the exceptions we found indicate that it would be cost-effective to use contract employees or a local accounting firm to perform a payment verification of all ASHONPLAFA reimbursement vouchers.

Conclusion

Because of weak financial controls, ASHONPLAFA has earned a substantial amount of interest on AID funds, which it has not refunded to AID. Mainly because travel advances were not properly liquidated, it has also received reimbursement for unsupported and unallowable expenses. USAID/Honduras should recover these amounts and require ASHONPLAFA to strengthen controls over travel advances.

Recommendation No. 5

USAID/Honduras:

- a) recover any interest earnings due AID, based on documentation provided by ASHONPLAFA, or on a pro-rata allocation of interest income to AID and ASHONPLAFA's other donors;
- b) recover \$9,751 in ineligible costs from ASHONPLAFA, resolve \$1,413 in questioned costs, and perform payment verifications of ASHONPLAFA reimbursement vouchers from 1983 to the present; and
- c) require ASHONPLAFA to strengthen controls over travel advances (at a minimum, each advance should be liquidated by a report showing the purpose of the trip, the dates of travel, and the employee's and supervisor's signatures).

Management Comments

In our draft report, we recommended that USAID/Honduras perform payment verifications of all ASHONPLAFA reimbursement vouchers. We have adopted the Mission's suggestion that they be required only to perform payment verifications of reimbursement vouchers from 1983 to the present. The Mission agreed to perform payment verifications of all the reimbursement vouchers if widespread problems are found.

Need For Improved Reporting and Monitoring

Both USAID/Honduras and ASHONPLAFA lack information needed to verify that counterpart contributions have been made, and CBD sales revenues have been reinvested as required by the grant agreements. Also, changes in the CBD program reports are needed so that they will provide more accurate and useful information on the program's efficiency and effectiveness.

Counterpart Contributions

Counterpart contribution requirements for AID's eight projects with ASHONPLAFA (three of which have been completed) total about \$1.9 million. Because ASHONPLAFA does not maintain its accounts in such a way that its contributions to AID projects can be readily determined, ASHONPLAFA officials were unable to confirm or demonstrate that they had complied with these counterpart requirements. According to USAID/Honduras officials, ASHONPLAFA does not provide regular reports on counterpart contributions to the Mission, so it is also unable to affirm that counterpart requirements have been met. Because needed information was not available, we could not verify that counterpart contribution requirements had been met.

Contraceptive Sales Income

AID grant agreements supporting the CBD program require ASHONPLAFA to reinvest CBD contraceptive sales income in the program. ASHONPLAFA does not routinely report to USAID/Honduras how much revenue it has earned or how the income was used, although it did provide the Mission with a statement on the use of 1982 revenues.

In attempting to determine how CBD revenues have been used, we discovered that ASHONPLAFA's accounting records show far less revenue than is shown in the quarterly reports prepared by the Chief of the CBD program. However, we were able to verify the accuracy of revenues reported in one of the quarterly reports through a comparison with bank deposits. ASHONPLAFA's Administrator and Chief Accountant could not explain these differences and, as we completed our field work, they were preparing a reconciliation of the quarterly reports and their records, and a report on how CBD income has been used in 1982, 1983 and 1984.

Because its accounting records do not agree with the CBD program quarterly reports, ASHONPLAFA was unable to show that it has reinvested CBD sales income as required by the grant agreements. Because it does not receive regular reports on CBD revenues or how they have been used, USAID/Honduras also cannot tell whether the agreements have been complied with.

Community-Based Distribution Program Reports

Managers should use reports to maintain control over their programs. However, ASHONPLAFA's quarterly reports on the CBD program are not very useful for assessing the program's efficiency and effectiveness, because they are inaccurate and do not include needed information. These deficiencies exist, in part, because there are no written reporting instructions. Also, it appears that some of ASHONPLAFA's staff lack experience in reporting quantitative information.

The inaccuracies affect the number of both new and active users reported. The number of active users is calculated based on the number and type of contraceptives sold each quarter. (That is, each active user is assumed to use 3.25 cycles of oral contraceptive, 1.5 tubes of spermicide, or 25 condoms in each three-month period.) The number of active users is frequently overstated or understated because the reports contain more or less than three months' sales data, and the factors for calculating the number of active users are not adjusted accordingly. It appears that these errors occurred because some of ASHONPLAFA's staff are not experienced in reporting quantitative information.

The number of new users (those who have never purchased contraceptives from the CBD program) are counted based on logs kept by the distributors. Inaccuracies in this number exist because some distributors do not understand the definition of a new user, or forget to record some new users. Written reporting instructions would help solve this problem.

The quarterly reports do not include the cost per contraceptive user, which we believe is a basic measure of program efficiency. In fact, reducing the cost per user was one of the specific objectives of the Clinic Expansion Program (project number 522-0197), but USAID/Honduras did not require ASHONPLAFA to report this information. Based on ASHONPLAFA's records (which are affected by the inaccuracies discussed above), the cost per user was \$9.06 in 1983, and the annualized cost per user was \$11.60 for the first quarter of 1984. While these costs are not out of line with those of similar programs in Latin America, management should monitor and determine the reasons for changes in the cost per user.

Conclusion

Presently, both USAID/Honduras and ASHONPLAFA lack information needed to monitor compliance with grant agreements, and to evaluate the efficiency and effectiveness of the CBD program. We believe that USAID/Honduras and ASHONPLAFA management should routinely review reports on counterpart contributions, the amount of CBD sales income and its application, and the cost per CBD contraceptive user.

Recommendation No. 6

USAID/ Honduras:

- a) require that ASHONPLAFA prepare written instructions for the quarterly reports (addressing, among other things, the definition of a new user, and how the number of active users should be calculated) and distribute these to all CBD staff and distributors;
- b) obtain reports on the counterpart contributions and the use of CBD sales income to date, and determine whether the grant agreement requirements have been met; and
- c) obtain periodic reports on the cost per CBD contraceptive user, counterpart contributions, and CBD revenues and their application.

Other Matters

ASHONPLAFA still lacks approved personnel and salary guidelines which a management study recommended be developed more than a year ago. Also, while controls over capital equipment and contraceptives appear sound, other supplies in ASHONPLAFA's central warehouse are not properly controlled.

Lack of Personnel and Salary Guidelines

We believe that an organization of ASHONPLAFA's size (about 150 employees) needs written policies for personnel administration and salaries, to ensure that its employees are aware of their responsibilities and receive fair treatment. ASHONPLAFA still does not have such policies, even though a management assessment completed more than a year ago recommended that they be developed. ASHONPLAFA appears to be resisting this recommendation, even though past staff morale problems demonstrate the need for better personnel and salary policies.

In June 1983, IPPF published a management assessment of ASHONPLAFA which found that personnel policies and procedures were either outdated or did not exist. It also found an acute morale problem among ASHONPLAFA's staff, due to perceived inequities in salary administration. The study recommended that ASHONPLAFA update its position descriptions and prepare personnel and salary policies for immediate consideration by the Board of Directors.

ASHONPLAFA has made some progress in implementing the recommendations. For example, it has prepared updated position descriptions and drafted new personnel regulations. According to USAID/Honduras' Health Population Development Officer, it has also resolved pay problems with department chiefs and CBD promoters injurious to their morale. However, more than a year after the study was published, ASHONPLAFA still lacks approved personnel and salary policies. One official we interviewed characterized ASHONPLAFA's response to the study's recommendations as "passive resistance," and we agree that ASHONPLAFA has not moved quickly enough to modernize its personnel management procedures.

Need for Better Control of Supplies

We believe that ASHONPLAFA should maintain control cards for all supplies and equipment in its central warehouse which show entries, stock on hand, and issues. In the absence of such records, assets are not adequately safeguarded against waste, loss, misuse, or theft. ASHONPLAFA maintains control cards for capital equipment and contraceptives, but not for other supplies (including automobile parts, tires, and medical supplies) kept in the warehouse. For two months in 1983, ASHONPLAFA maintained control cards for some of these supplies but the postings were discontinued in February 1983 because, according to the warehouse and supply employee, he did not have time to maintain them. Before we finished our review of the warehouse controls, he had begun an inventory of the supplies so that he could open new control cards.

During our review we also noted that (1) new control cards for contraceptives are opened each year, whether or not the old cards are full; and that (2) the balance shown on the cards is re-entered at the end of each month. These actions serve no useful purpose and should be discontinued.

Conclusion

ASHONPLAFA, which has about 150 employees, does not have written personnel and salary guidelines. These should be developed expeditiously to prevent

recurrence of staff morale problems. Also, control over supplies in ASHONPLAFA's warehouse should be strengthened to prevent waste, loss, misuse, or theft.

Recommendation No. 7

USAID/Honduras:

- a) obtain from ASHONPLAFA written personnel and salary guidelines, approved by the Board of Directors; and
- b) verify that control cards are now being maintained for all supplies and equipment in the central warehouse.

Management Comments

USAID/Honduras suggested that we expand the language in Recommendation No. 7(a) to include position descriptions. We retained the original recommendation since we verified that ASHONPLAFA now has updated and approved position descriptions.

Conclusions Concerning the Association's Management Ability

ASHONPLAFA is the most effective organization providing family planning services in Honduras, and it has been successful in expanding its programs to meet the large unmet demand for these services. Since AID began supporting ASHONPLAFA in 1980, it has increased the number of contraceptive users in its CBD program by 58 percent, and increased the number of voluntary sterilization procedures by 76 percent. It has also begun to distribute contraceptives through commercial outlets, which should prove to be a relatively low-cost means of increasing contraceptive use.

Yet, ASHONPLAFA's potential for substantial growth over the next few years seems limited. The organization's budget has grown nearly 1,200 percent in the last ten years -- about 150 percent since AID support began -- and its staff has grown nearly 120 percent since 1978. The organization has yet to develop the management skills and modern administrative systems that will support this growth.

In June 1983, an IPPF study found that ASHONPLAFA had an improvised, if not paternalistic, management system. It had few formal standards or procedures, and the Executive Director delegated little authority. While some positive changes have been made, we found essentially the same situation.

While the Executive Director has given the department chiefs more authority, some of them still do not appear to assume full responsibility for their programs. For example, when we asked the Chief of the CBD program what was being done to alleviate the chronic shortage of Ovral, she told us that she had raised the problem with the Executive Director, but did not know what, if any-

thing, had been done to obtain more Ovral or to register Femenal. Also, ASHONPLAFA's Administrator told us that he was aware of some procedural deficiencies, but did not feel that he had the authority to change the systems he found when he assumed the position.

For this reason, perhaps, or because they need additional training and technical assistance, ASHONPLAFA's management frequently seem to lack problem solving skills. In some cases (such as the failure to obtain adequate supplies of Ovral, or to register Femenal), management inaction has diminished program effectiveness. In other cases, (such as the failure to develop sound financial controls) management inaction has led to unauthorized use of AID funds and impeded efficient operations. ASHONPLAFA has also been slow to develop the modern administrative systems which an organization of its size requires. Our impression is that ASHONPLAFA is struggling to carry out existing programs and could not effectively absorb additional resources under present conditions.

Additional training and technical assistance (which may require a new project, or an amendment to project number 522-9104.1) would help strengthen ASHONPLAFA's management capability. Also, USAID/Honduras is currently collaborating on a proposal to establish five regional subcenters which would become the training and service delivery units for all of ASHONPLAFA's programs. If management talent exists or can be developed to properly staff these subcenters, decision-making authority could be decentralized and supervision over ASHONPLAFA's field organization improved.

Finally, while ASHONPLAFA is ultimately responsible for the success of its programs and for complying with AID requirements, we believe that closer Mission monitoring and assistance is essential if ASHONPLAFA is to adequately carry out its present responsibilities.

Honduran Family Planning Association

Status of Projects, March 31, 1984

<u>Project Title</u>	<u>Number</u>	<u>Implementation Dates</u>	<u>Status</u>	<u>Authorized Amount</u>	<u>Obligations</u>	<u>Expenditures</u>
Honduran Family Support	522-0175	8/29/80-8/31/82	Completed	\$440,000	\$440,000	\$440,000
Clinic Expansion Program	522-0197	5/10/82-4/30/84	Completed	1,000,000	1,000,000	916,568
Project Development & Support (Health & Population)	522-9108, 9104	9/30/82-6/30/83	Completed	9,443 <u>\$1,449,443</u>	9,443 <u>\$1,449,443</u>	9,443 <u>\$1,366,011</u>
Commercial Retail Sales	522-0201.1	7/31/83-12/31/85	Active	925,000	925,000	133,560
Headquarters Expansion	522-0201.2	7/31/83-7/30/85	Active	280,000	280,000	6,000
Family Planning Service Delivery Support	522-0225	5/9/84-4/19/85	Active	775,000	775,000	0
Leadership Education	522-0240	7/12/83-6/29/86	Active	320,000	320,000	34,933
Project Development & Support (Population)	522-9104.1	9/10/83-6/30/85	Active	93,291 <u>\$2,393,291</u>	93,291 <u>\$2,393,291</u>	16,736 <u>\$191,229</u>

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List of Recommendations

Recommendation No. 1

USAID/Honduras:

- a) monitor IPPF's progress and determine whether it can provide ASHONPLAFA with an adequate, stable supply of Ovral; and
- b) if IPPF cannot ensure an adequate, stable supply of Ovral, take action to register and supply Femenal to ASHONPLAFA.

Recommendation No. 2

USAID/Honduras:

- a) obtain documentation from ASHONPLAFA demonstrating that all expired contraceptive foam has been retrieved from the distribution system and destroyed;
- b) obtain further documentation to the effect that ASHONPLAFA has developed and communicated to its staff a written policy which (i) provides for a routine positive determination of the expiration date for all contraceptives it distributes, and (ii) prohibits distribution of expired contraceptives; and
- c) ensure that ASHONPLAFA receives a fresh supply of contraceptive foam.

Recommendation No. 3

USAID/Honduras obtain from ASHONPLAFA a plan including dates for replacing Ministry of Health auxiliary nurses in the CBD program, and monitor ASHONPLAFA's progress in carrying out this plan.

Recommendation No. 4

As a condition of executing new agreements with ASHONPLAFA, USAID/Honduras:

- a) assist ASHONPLAFA in developing an accounting manual that will provide control over resources;
- b) require ASHONPLAFA to establish three separate bank accounts for AID funds, CBD income, and CRS revenues, and periodically verify that ASHONPLAFA properly segregates income from sources; and
- c) obtain documentation showing that regular cash counts of ASHONPLAFA's petty cash funds are being conducted; and
- d) provide ASHONPLAFA with a Spanish translation of the current standard provisions for operational program grants.

Recommendation No. 5

USAID/Honduras:

- a) recover any interest earnings due AID, based on documentation provided by ASHONPLAFA, or on a pro-rata allocation of interest income to AID and ASHONPLAFA's other donors;
- b) recover \$9,751 in ineligible costs from ASHONPLAFA, resolve \$1,413 in questioned costs, and perform payment verifications of all ASHONPLAFA reimbursement vouchers from 1983 to the present; and
- c) require ASHONPLAFA to strengthen controls over travel advances (at a minimum, each advance should be liquidated by a report showing the purpose of the trip, the dates of travel, and the employee's and supervisor's signature).

Recommendation No. 6

USAID/Honduras:

- a) require that ASHONPLAFA prepare written instructions for the quarterly reports (addressing, among other things, the definition of a new user and how the number of active users should be calculated) and distribute these to all CBD staff and distributors;
- b) obtain reports on the counterpart contributions and the use of CBD sales income to date, and determine whether the grant agreement requirements have been met; and
- c) obtain periodic reports on the cost per CBD contraceptive user, counterpart contributions, and CBD revenues and their application.

Recommendation No. 7

USAID/Honduras:

- a) obtain from ASHONPLAFA written personnel and salary guidelines, approved by the Board of Directors; and
- b) verify that control cards are now being maintained for all supplies and equipment in the central warehouse.

APPENDIX B

List of Report Recipients

	<u>No. of Copies</u>
Mission Director, USAID/Honduras	5
Assistant Administrator, Bureau for Latin America and the Caribbean (AA/LAC)	1
LAC/CAP	2
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S&T/POP	1
Director, Office of Legislative Affairs (LEG)	1
Assistant to the Administrator for Management (AA/M)	1
Office of Financial Management (M/FM/ASD)	2
General Counsel (GC)	1
Director, Office of Public Affairs (OPA)	1
EXRL	1
PPC/CDIE	1
PPC/CDIE/DI	1