

PDHAS-110

42108

AUDIT  
OF RURAL HEALTH DELIVERY SYSTEMS  
USAID/HAITI PROJECT NO. 521-0091

AUDIT REPORT NO. 1-521-86-03  
NOVEMBER 26, 1985

MEMORANDUM

November 26, 1985

TO : D/USAID/Haiti, Jerome T. French  
FROM : RIG/A/T, Coinage N. Gothard   
SUBJECT: Audit of Rural Health Delivery Systems  
(USAID/Haiti Project No. 521-0091)

This report presents the results of the audit of Rural Health Delivery Systems (USAID/Haiti Project No. 521-0091).

The audit was performed at your request, and covered project activities from June 29, 1979 through September 12, 1985. The audit objectives were to evaluate:

- the project's effectiveness in achieving planned results,
- the efficiency of project operations,
- the adequacy of internal controls, and
- compliance with AID requirements.

The Rural Health Delivery Systems project's effectiveness was limited by planning weaknesses, delays in releasing budgeted funds, lack of commitment and high turnover among Ministry of Health staff, and other implementation problems. Measuring the project's effectiveness was made difficult by a lack of accurate information. The efficiency of project operations was inhibited by the lack of sound systems to direct resources where they were most needed, and by inappropriate practices used to purchase drugs and other commodities for the Agency for the Supply of Community Pharmacies (AGAPCO). Project internal controls generally did not provide reasonable protection against waste, misuse, or theft of resources. The audit also disclosed several instances of non-compliance with AID requirements.

The report findings concern project results, compliance with AID requirements, and internal controls. The project had made only limited progress toward accomplishing its objectives. Also, at least \$10 million in AID funds had been disbursed, as of June 30, 1985, while conditions precedent to their disbursement had not been met. Documentation supporting expenditures of AID and P.L. 480 Title I counterpart funds frequently did not demonstrate that the expenditures were project related, and no records of expenditures of Title I funds before October 1983 were available. In the Ministry of Health and AGAPCO warehouses we visited, amounts shown on two-thirds of the inventory control cards examined did not match the stock actually on hand, and numerous other

control weaknesses were detected. Also, effective controls to restrict the use of project vehicles and gasoline coupons to official use did not exist. Several other pertinent matters are also discussed in the report.

The report recommendations are that USAID/Haiti: reach agreement with the Ministry of Health on realistic objectives for the rest of the project life; document which conditions precedent have been met and make no more disbursements until the relevant conditions have been satisfied; provide for full-time supervision over accounting for project funds and take other actions to strengthen project accounting; obtain evidence that inventory control cards have been reconciled with stocks on hand and that appropriate supervision of warehouse employees is being provided; and verify that sound controls over project vehicles and fuel have been implemented.

USAID/Haiti concurred with all of the report findings and recommendations, with the exception of recommendation number three. In its comments on the draft report, it maintained that conducting a payment verification of all expenditures of AID funds under the project would be counterproductive. We have modified the recommendation to delete this requirement, on the basis that it would be extremely difficult for the Ministry to raise funds to pay back unsupported expenditures, and that it might be unfair to retroactively impose stricter standards for accounting for AID funds.

Please advise this office within thirty days of the actions planned or taken to implement the five recommendations in this report, and to correct the problems discussed in the "Other Pertinent Matters" section of the report.

## EXECUTIVE SUMMARY

USAID/Haiti's Rural Health Delivery Systems Project began in June 1979, and is currently scheduled to end in June 1986. Accrued AID expenditures were \$13.1 million as of June 30, 1985. The project proposes to provide access to medical services by approximately 70 percent of the rural population, and to strengthen the Ministry of Health so that it can continue effective support for the program after the end of the project. The project is implemented by the Ministry of Health and a semi-autonomous Agency for the Supply of Community Pharmacies.

At the request of USAID/Haiti, the Office of the Inspector General audited the Rural Health Delivery Systems Project, covering activities from June 29, 1979 through September 12, 1985. The audit objectives were to evaluate the project's effectiveness in achieving planned results, the efficiency of project operations, the adequacy of internal controls, and compliance with AID requirements.

Because of poor project design and implementation problems, such as delays in releasing budgeted funds and a lack of commitment and high turnover among Ministry staff, the project has made only limited progress toward attaining planned results. Measuring the project's effectiveness was difficult because of a lack of accurate information on its achievements. Implementation of a national health information system, which had begun when we completed our review, may improve management's ability to measure effectiveness. The efficiency of project operations was adversely affected by poor practices used to purchase drugs and other commodities for the Agency for the Supply of Community Pharmacies, and by poor systems for allocating resources, such as vehicles and gasoline coupons, where they were most needed. Internal controls over project funds, vehicles, gasoline coupons, and other commodities did not provide reasonable protection against waste, misuse, or diversion. The audit also disclosed several instances of non-compliance with AID policy and the project agreement.

The actual accomplishments of the project fell far short of those planned in the project paper because the design of the project was overly ambitious, and because of implementation problems such as delays in releasing budgeted funds, a lack of commitment on the part of the Ministry of Health, and high turnover among Ministry managers. As a result, the project had made limited progress toward its goal of significantly improving the health of rural Haitians by 1990. We recommend that USAID/Haiti reach agreement with the Ministry on realistic objectives for the remainder of the project.

The project agreement established 24 conditions precedent to disbursement of AID funds. It was difficult to determine the status of compliance with conditions precedent because Mission staff involved with the project in its early stages had left by the time we conducted our review, and because the Mission's files did not clearly establish the status of some conditions precedent. Nonetheless, based on our review of project implementation letters and other correspondence and reports, we concluded that at least \$10 million in AID funds had been disbursed, as of June 30,

1985, even though conditions precedent to their disbursement had not been met or waived. The Mission was aware that some of the conditions precedent had not been met, but did not enforce compliance because it believed that the Ministry was unable to meet some of the conditions, and because, according to one official, the Mission USAID/Haiti was more committed to the project than the Ministry. As a result, a substantial amount of AID funds was disbursed without adequate assurance that the money would be well spent. We recommend that USAID/Haiti formally notify the Ministry of the status of the conditions precedent, and make no more disbursements until the relevant conditions precedent have been met or waived.

Accounting for AID and Title I funds did not comply with standards established in the project agreement. It was impossible to verify whether many of the expenditures were project related. USAID/Haiti had issued a \$310,396 bill for collection because the Ministry could not produce documentation to liquidate an advance of AID funds. This situation existed because accounting staff were not well trained, because of the lack of sound procedures, and because all records substantiating Title I expenditures before October 1983 had reportedly been misplaced. As a result, the Mission did not have sufficient assurance that many expenditures were project related, and the pace of the project had slowed considerably while project staff attempted to liquidate the outstanding advance. We recommend four actions to improve accounting for project funds. In its comments on the draft report, USAID/Haiti maintained that it would be counterproductive to conduct a payment verification of all expenditures of AID project funds. We have modified the recommendation to eliminate that requirement.

The project agreement required that the project be carried out in conformity with sound management practice, which requires that resources be protected from waste, misuse, and theft. However, controls in the Ministry of Health and AGAPCO warehouses we visited needed to be strengthened. Amounts shown on control cards frequently did not match the stock actually on hand, and numerous other control problems also existed. The warehouse employees often did not understand, or did not consistently follow, sound control procedures. As a result, commodities in the warehouses were not adequately safeguarded, and the two organizations lacked the accurate information needed to manage their inventories. We recommend that physical inventories be conducted and that additional guidance be provided to the responsible employees.

Sound management practice requires that resources be protected from waste, misuse and theft. However, no effective controls existed to ensure that project vehicles and gasoline were used only for official purposes. According to Management Sciences for Health officials, controls over project vehicles had been introduced, but were later abandoned. The system for distributing gasoline coupons was evidently devised by Ministry of Health officials who were not concerned with safeguarding resources. In many cases, project vehicles were used for transportation to and from work and for other non-official purposes, and we consider it quite likely that gasoline coupons purchased with project funds were also diverted to personal use. We recommend that appropriate controls over these resources be implemented.

The audit disclosed five other pertinent matters: (1) overstocked drugs in the Agency for the Supply of Community Pharmacies, (2) purchases made by the Agency without obtaining price quotations, (3) the absence of signs at project facilities publicizing AID's involvement, (4) the lack of a written determination justifying USAID/Haiti's use of sixty days' cash requirements as its criterion for setting advance levels, and (5) incomplete project files.

*Office of the  
Inspector General*

---

AUDIT  
OF RURAL HEALTH DELIVERY SYSTEMS  
USAID/HAITI PROJECT NO. 521-0091

TABLE OF CONTENTS

	<u>Page</u>
PART I - INTRODUCTION . . . . .	1
A. Background . . . . .	1
B. Audit Objectives and Scope . . . . .	2
<u>PART II - RESULTS OF AUDIT . . . . .</u>	<u>3</u>
A. Findings and Recommendations . . . . .	4
1. Project Achievements were Less Than Anticipated . . . . .	4
2. AID Funds were Disbursed Before Conditions Precedent Had Been Met or waived . . . . .	6
3. Accounting for Project Funds was Inadequate . . . . .	10
4. Warehouse Controls Needed to be Strengthened . . . . .	14
5. Controls Over Project Vehicles and Fuel were Inadequate . . . . .	16
B. Compliance and Internal Control . . . . .	18
C. Other Pertinent Matters . . . . .	19
<u>PART III - EXHIBIT AND APPENDICES . . . . .</u>	<u>21</u>
A. Exhibit . . . . .	22
Status of AID Funding as of June 30, 1985 . . . . .	22
B. Appendices . . . . .	23
1. Status of Conditions Precedent to Disbursement Under the Project as of September 12, 1985 . . . . .	23
2. Mission Comments . . . . .	27
3. List of Recommendations . . . . .	31
4. Report Distribution . . . . .	33

AUDIT  
OF RURAL HEALTH DELIVERY SYSTEMS  
USAID/HAITI PROJECT NO. 521-0091

PART I - INTRODUCTION

A. Background

Haiti is the poorest country in the Western Hemisphere, with a 1980 per capita income of \$270. About 70 percent of its 5.6 million people live in rural areas.

The population is one of the least healthy in the world, using any of the standard health status indicators: infant mortality (125/1,000), child mortality (25/1,000), crude mortality (16/1,000), or life expectancy at birth (53 years) (all 1980 figures). There are three basic causes of poor health: first, by climate and geography, Haiti offers ideal conditions for the spread of tropical and sub-tropical diseases; second, superstition and an illiteracy rate of almost 80 percent impede efforts to educate the population about the causes and treatment of disease; and third, health services are underfunded and what available resources exist are used inefficiently.

The objective of USAID/Haiti's health assistance is to make Haiti self-sufficient in providing broad access to cost-effective preventive and curative health services directed at the primary causes of illness and death. Its strategy for achieving this objective contains four elements:

- strengthening public sector management of resources,
- improving the technologies for delivering primary health care,
- developing and strengthening self-financing mechanisms, and
- streamlining private sector support for primary health care.

The Rural Health Delivery Systems Project began on June 29, 1979; the current project assistance completion date is June 30, 1986. The project has a budget of \$35.9 million, including \$17.5 million in AID funds and \$18.4 million in counterpart funds generated by sales of food imported through the P.L. 480 Title I program. Accrued AID expenditures totalled \$13.1 million and disbursements totalled \$12.4 million as of June 30, 1985 (Exhibit 1, page 22). While complete information on Title I expenditures over the life of the project was not available, \$7.1 million in Title I funds had been released to the project as of March 31, 1985.

The project goal is to improve the health status of rural Haitians significantly by 1990. The project has two purposes:

- to provide access to low cost preventive and curative medical services for approximately 70 percent of the rural population, and

- to strengthen the Ministry of Health to such an extent that it can continue effective support for the program after the termination of AID assistance.

Project inputs include construction and renovation of Ministry facilities, equipment and supplies, salary support, and training and technical assistance. The project is implemented by the Ministry of Health through its Central Bureau, four regional offices, and fifteen district offices. The facilities actually providing health care are hospitals, health centers, and rural dispensaries. A semi-autonomous Agency for the Supply of Community Pharmacies (AGAPCO), operating under the guidance of the Minister of Health, sells drugs and supplies to the Ministry of Health and a number of community pharmacies. Long-term project technical assistance is provided by Management Sciences for Health.

#### B. Audit Objectives and Scope

At the request of USAID/Haiti, the Office of the Regional Inspector General for Audit/Tegucigalpa performed an audit of USAID/Haiti's Rural Health Delivery Systems Project. The audit covered activities from June 29, 1979 through September 12, 1985, and covered \$13.5 million in AID accrued expenditures and advances, as of June 30, 1985. Audit field work was conducted from June 12 through September 12, 1985. The project had not been audited previously.

The audit objectives were to evaluate:

- the project's effectiveness in achieving planned results,
- the efficiency of project operations,
- the adequacy of internal controls, and
- compliance with AID requirements.

To accomplish these objectives, project files were reviewed and USAID/Haiti, Ministry of Health, and Management Sciences for Health officials responsible for the project were interviewed. Twelve health centers and dispensaries, fourteen support facilities, and fourteen community pharmacies (most of which were located in health care facilities), located in Port-au-Prince and in the Ministry's four regions, were visited. Documentation supporting expenditures of \$135,695 in AID funds and \$353,203 in Title I counterpart funds were reviewed.

The audit was performed in accordance with generally accepted government audit standards.

AUDIT  
OF RURAL HEALTH DELIVERY SYSTEMS  
USAID/HAITI PROJECT NO. 521-0091

PART II - RESULTS OF AUDIT

The Rural Health Delivery Systems project's effectiveness was limited by planning weaknesses, delays in releasing budgeted funds, lack of commitment and high turnover among Ministry of Health staff, and other implementation problems. Measuring the project's effectiveness was made difficult by a lack of accurate information. The efficiency of project operations was inhibited by the lack of sound systems to direct resources where they were most needed, and by inappropriate practices used to purchase drugs and other commodities for the Agency for the Supply of Community Pharmacies (AGAPCO). Project internal controls generally did not provide reasonable protection against waste, misuse, or theft of resources. The audit also disclosed several instances of non-compliance with AID requirements.

The report findings concern project results, compliance with AID requirements, and internal controls. The project had made only limited progress toward accomplishing its objectives. Also, at least \$10 million in AID funds had been disbursed, as of June 30, 1985, while conditions precedent to their disbursement had not been met. Documentation supporting expenditures of AID and P.L. 480 Title 1 counterpart funds frequently did not demonstrate that the expenditures were project related, and no records of expenditures of Title 1 funds before October 1983 were available. In the Ministry of Health and AGAPCO warehouses we visited, amounts shown on two-thirds of the inventory control cards examined did not match the stock actually on hand, and numerous other control weaknesses were detected. Also, effective controls to restrict the use of project vehicles and gasoline coupons to official use did not exist. Several other pertinent matters are also discussed in the report.

The report recommendations are that USAID/Haiti: reach agreement with the Ministry of Health on realistic objectives for the rest of the project life; document which conditions precedent have been met and make no more disbursements until the relevant conditions have been satisfied; provide for full-time supervision over accounting for project funds and take other actions to strengthen project accounting; obtain evidence that inventory control cards have been reconciled with stocks on hand and that appropriate supervision of warehouse employees is being provided; and verify that sound controls over project vehicles and fuel have been implemented.

USAID/Haiti concurred with all of the report findings and recommendations, with the exception of recommendation number three. In its comments on the draft report, it maintained that conducting a payment verification of all expenditures of AID funds under the project would be counterproductive. We have modified the recommendation to delete this requirement, on the basis that it would be extremely difficult for the Ministry to raise funds to pay back unsupported expenditures, and that it might be unfair to retroactively impose stricter standards for accounting for AID funds.

## A. Findings and Recommendations

### 1. Project Achievements Were Less Than Anticipated

The actual accomplishments of the project fell far short of those planned in the project paper because the design of the project was overly ambitious, and because of implementation problems such as delays in releasing budgeted funds, a lack of commitment on the part of the Ministry of Health, and high turnover among Ministry managers. As a result, the project had made limited progress toward its goal of significantly improving the health of rural Haitians by 1990.

#### Recommendation No. 1

We recommend that USAID/Haiti, prior to extending the project beyond its present planned completion date or obligating additional funds, reach agreement with the Ministry of Health in establishing realistic project objectives.

#### Discussion

Most of the project's major objectives had not been achieved. As a result, the project had made limited progress toward its goal of significantly improving the health of rural Haitians by 1990. The project's major objectives included:

- providing low cost health services to up to 3 million rural Haitians,
- training and deploying 1,550 health agents,
- training and deploying 560 auxiliary nurses to staff rural dispensaries and supervise health agents,
- providing training and technical assistance to strengthen management of the Ministry of Health,
- building or renovating about 270 health and support facilities, and
- establishing of a viable drug supply system.

Health Care Coverage -- The original objective of the project was to provide services to up to 3 million rural inhabitants. While no reliable information was available, it was apparent that the project had not approached this level of performance. The project officer estimated that the immunization program was reaching as many as 500,000 people, and according to the Chief of USAID/Haiti's Health and Population Office, close to half the rural population knew how to use oral rehydration salts. A national health information system, which was being implemented when we completed our review, may eventually provide more accurate information on services delivered through the project.

Health Agents -- The original goal was to train and deploy 1,550 health agents, but only about 550 agents had actually been trained. (According to a 1983 evaluation report, 375 agents had been trained before the project began.) Of these 550 health agents, according to the project officer, perhaps 450 were active. Severe shortages of medicines and other supplies, poor supervision, and frequent delays of up to eight months in salary payments had impaired the agents' morale and limited their effectiveness as health care providers.

Auxiliary Nurses -- The objective of training 560 auxiliary nurses and deploying them in rural dispensaries had been substantially achieved. In many cases, however, they did not adequately supervise the health agents assigned to them. According to a former Chief of the Health and Population Office, the auxiliary nurses lacked public health training and were themselves poorly supervised.

Institutional Strengthening -- A major emphasis of the project was to train Ministry officials and implement improved administrative systems. Some progress had been made in this area, notably in the establishment of six priority health programs, based on epidemiological data, which had been accepted by each Minister of Health since 1982. In general, though, the Ministry's administration remained very weak.

Systems for purchasing and controlling medicines and other commodities were not operating properly. For example, many medicines were overstocked or had been allowed to expire, while other needed drugs were not available. Controls over gasoline, vehicles, and warehoused commodities were inadequate to prevent waste, misuse, or theft. A sound system for distributing spare parts for vehicles had been implemented, but since the parts themselves were in short supply, many of the Ministry's vehicles were inoperable. For example, one-half of the vehicles assigned to the Ministry's North Region were not operable.

While Management Sciences for Health consultants had developed several automated inventory systems (to list Ministry personnel, health establishments, vehicles, and refrigerators used in a "cold chain" for vaccines), the lists were not used as a basis for management decisions. The locations of employees shown in the personnel list were out of date, and the other inventories were updated only by project consultants. The Ministry had not placed a priority on maintaining or using these systems, creating doubts as to how long they would last after project technical assistance was terminated.

The Ministry's financial management was extremely weak. Budgeting and disbursement of Title I funds was slow, and controls over both Title I and AID funds were inadequate to ensure that they were used only for authorized purposes. A new accounting system which had just been implemented could, with proper training and supervision, improve financial controls.

Facilities -- The Project Paper contemplated construction or renovation of 237 rural dispensaries, one health center, one dormitory, and thirty workshops/garages and warehouses. Progress in this component had been slow because many of the sites selected for dispensaries were unsuitable; construction costs were underestimated; some buildings selected for renovation were in fact beyond repair; and some contractors did not perform as agreed. Fifty-seven dispensaries, three health centers, and seventeen support facilities had been completed, but there were reportedly delays of up to one year in staffing and equipping some of the facilities. Also, some of the facilities were not being maintained properly. The Mission had decided not to fund any additional construction, in recognition of the Ministry's difficulties in funding recurring costs. For two years, it had been negotiating the selection of some additional sites for renovation, which should not increase the Ministry's recurring costs.

Drug Supply System -- Originally, USAID/Haiti planned to purchase drugs for the Ministry of Health, an approach which would have ignored the issue of how the Ministry would fund this recurring cost after the project ended. Instead, a semi-autonomous government agency -- the Agency for the Supply of Community Pharmacies, or AGAPCO -- was established to sell drugs at a mark-up to the Ministry of Health and to community pharmacies. By August 1985, almost 190 pharmacies had been established. We believe that the current approach is sound. However, AGAPCO's efforts to become financially self-sustaining have been obstructed by inappropriate purchases leading to large quantities of overstocked and expired drugs, and by large sales on credit to the Ministry of Health, which owed AGAPCO about \$170,000 -- an amount equal to eleven months' cash sales.

Overall Factors Inhibiting Progress -- Besides the specific causes of problems discussed above, four overall factors were responsible for the shortfall between planned and actual accomplishments: the project was poorly designed, budgeted funds were not released in a timely manner, turnover of project staff impeded institutional strengthening efforts, and some key Ministry officials were not committed to the project.

The project design was incomplete and overly ambitious. According to a former Chief of the Health and Population Office, the incompleteness of the design was illustrated by the fact that 24 conditions precedent (many of which had more than one part) were included in the project agreement. The design was overly ambitious because the designers did not adequately consider the Ministry's ability to fund the project's recurring costs, and apparently overestimated the Ministry's commitment and administrative ability. This raised questions concerning the extent of the Ministry's involvement in the design process. It was evident during our review that, after five years of training and technical assistance, the Ministry still lacked the financial and management capability to implement a project of this one's planned magnitude.

Since the beginning of the project, budgeted funds were not released in a timely manner, hampering project activities. For example, Title I funds for fiscal years 1981 through 1985 were never released to the project at

the beginning of the fiscal year, because budgets and expenditure reports were not submitted to USAID/Haiti in a timely fashion, or because the funds were used for unauthorized purposes. In fiscal year 1984, the project did not receive Title I funds until December, and in fiscal year 1985, it did not receive the funds until April. Also, because the Ministry could not produce documentation to liquidate a large advance made in July 1983, USAID/Haiti was only disbursing funds to two semi-autonomous entities which had their own advances (the Division of Family Hygiene and Nutrition, and AGAPCO).

High turnover of Ministry management also impeded progress. According to a former Chief of the Mission's Health and Population Office, there had been seven Ministers of Health during the first six years of the project, and four Directors of AGAPCO in less than three years. Other mid- and lower-level officials involved in the project also came and left frequently. This made it difficult to strengthen Ministry management through technical assistance and training.

Some Ministry managers and staff lacked commitment to the project. Project officials told us that the project had achieved virtually nothing under one Minister who had just been replaced when we began our review. In fact, they said, gains made previously were lost during his tenure. For example, the Minister disbanded a motor pool and vehicle assignment system and assigned vehicles to individuals. Other staff also frustrated achievement of the project's objectives. For instance, one Financial Manager who left the Ministry during our review had effectively avoided meeting with USAID/Haiti and Management Sciences for Health officials.

While USAID/Haiti was responsible for the project design, and shared responsibility for problems leading to the slow release of funds, the lack of commitment and high turnover among Ministry staff lay outside the Mission's control. These factors, which had a significant negative impact on this project, should be a major consideration in future decisions concerning assistance to the Ministry of health. As a minimum prerequisite to extending this project's planned completion date, or obligating additional funds, USAID/Haiti should reach agreement with the Ministry in establishing realistic goals for the remainder of the project. The Mission should also continue to seek the appointment and retention of capable, dedicated project staff.

#### Management Comments

USAID/Haiti stated that it would redefine the project's objectives, in light of existing institutional and economic constraints, before extending the project assistance completion date.

2. AID Funds Were Disbursed Before Conditions Precedent Had Been Met or Waived

The project agreement established 24 conditions precedent to disbursement of AID funds. It was difficult to determine the status of compliance with conditions precedent because Mission staff involved with the project in its early stages had left by the time we conducted our review, and because the Mission's files did not clearly establish the status of some conditions precedent. Nonetheless, based on our review of project implementation letters and other correspondence and reports, we concluded that at least \$10 million in AID funds had been disbursed, as of June 30, 1985, even though conditions precedent to their disbursement had not been met or waived. The Mission was aware that some of the conditions precedent had not been met, but did not enforce compliance because it believed that the Ministry was unable to meet some of the conditions, and because, according to one official, USAID/Haiti was more committed to the project than the Ministry. As a result, a substantial amount of AID funds was disbursed without adequate assurance that the money would be well spent.

Recommendation No. 2

We recommend that USAID/Haiti:

- a) recapitulate for the benefit of the current Minister of Health the status of all conditions precedent through a project implementation letter, and
- b) notify the Ministry that it will discontinue disbursements under this project until the relevant conditions precedent have been met or waived.

Discussion

The project agreement established 24 conditions precedent to disbursement which, according to AID Handbook 3, Section 6D.5.d., should generally be limited to those actions without which a project should not go forward. Project implementation letter no. 1 stated that when the Mission approved documentation submitted to satisfy a condition precedent, it would notify the Ministry of Health through a project implementation letter.

Because staff involved in the early stages of the project had left the Mission by the time we began the review, and, more importantly, because the Mission's files did not clearly document the status of each condition precedent, it was difficult to determine whether the conditions precedent had been met, waived, or neither.

Notwithstanding these problems, based on our review of project implementation letters, correspondence, reports, and interviews with project officials, we concluded that at least \$10 million in AID funds had been disbursed, as of June 30, 1985, even though the conditions precedent to their disbursement had not been met or waived. Overall,

eight of the 24 conditions precedent had not been met or waived. Eight additional conditions may have been met, but compliance was not documented in the Mission's files (Appendix 1, page 23).

The Mission had not enforced compliance with the conditions precedent because it believed that the Ministry was unable to meet some of the conditions, and because, according to a former Chief of the Health and Population Office, the Mission was more committed to the project than the Ministry.

Because AID Handbook 3 generally limits conditions precedent to essential requirements (i.e., those without which a project should not go forward), one must conclude that a large amount of AID funds was disbursed without adequate assurance that the funds would be wisely used. Also, failure to enforce conditions precedent encourages borrower/grantees to take lightly their obligations under project agreements.

In conclusion, USAID/Haiti had disbursed at least \$10 million even though the relevant conditions precedent had not been met or waived. The unmet conditions precedent should be met or waived, and the Ministry of Health notified to that effect, before additional funds are disbursed under this project.

#### Management Comments

The Mission stated that it was preparing a project implementation letter to document compliance with seven conditions precedent, and that it planned to waive eleven additional conditions precedent. These would then be considered objectives to be achieved during the extended project life. It planned to insist on compliance with at least one condition (the requirement for annual implementation plans) before fiscal year 1986 funds were disbursed.

#### OIG Response

The actions planned and underway meet the intent of our recommendation, provided that no more funds are disbursed until the relevant conditions precedent have been met or waived.

### 3. Accounting for Project Funds Was Inadequate

Accounting for AID and Title I funds did not comply with standards established in the project agreement. It was impossible to verify whether many of the expenditures were project related. USAID/Haiti had issued a \$310,396 bill for collection because the Ministry could not produce documentation to liquidate an advance of AID funds. This situation existed because accounting staff were not well trained, because of the lack of sound procedures, and because all records substantiating Title I expenditures before October 1983 had reportedly been misplaced. As a result, the Mission did not have sufficient assurance that many expenditures were project related, and the pace of the project had slowed considerably while project staff attempted to liquidate the outstanding advance.

#### Recommendation No. 3

We recommend that USAID/Haiti:

- a) provide for training and full-time supervision over accounting for project funds;
- b) obtain evidence that the Government of Haiti is submitting accurate expenditure reports and budgets in a timely fashion, permitting the timely release of Title I funds to the project;
- c) obtain evidence that an addendum to the accounting manual has been provided to responsible staff, describing the elements supporting documentation must contain to demonstrate that expenditures are project related; and
- d) notify the Ministry of Health that future expenditures of AID funds will be subjected to payment verification, and that unsupported expenditures will be disallowed.

#### Discussion

The project agreement provided that the project would be carried out in accordance with sound financial and management practices. It also required that the grantee keep books and records in accordance with generally accepted accounting principles, adequate to show the receipt and use of goods acquired under the grant, and that these books and records be audited regularly. These requirements were not met.

Because an advance dating from July 1983 had not been liquidated, USAID/Haiti issued a bill for collection in May 1985 for \$310,396. The pace of the project had slowed to a crawl because the Mission was only disbursing funds to two semi-autonomous entities judged capable of managing their own advances (the Division of Family Hygiene and Nutrition, and AGAPCO), and because Ministry staff and project consultants were spending a great deal of time searching for supporting documents.

We reviewed documents supporting the expenditure of \$135,693 in AID funds. Some of these documents were being held by the Ministry, to be applied to the bill for collection. The submission of these documents to AID had been delayed because, due to turnover among the accounting staff, no one in the Ministry knew how to prepare a reimbursement voucher. The remaining documents were submitted in support of vouchers paid by AID in 1983. Documentation supporting 37 percent of the expenditures we reviewed did not demonstrate that they were project related:

	<u>Accepted</u>	<u>Questioned</u>	<u>Total</u>
Documents held by the Ministry	\$ 18,481 (32%)	\$ 39,811 (68%)	\$ 58,291 (100%)
Documents submitted to AID	\$ 67,466 (87%)	\$ 9,936 (13%)	\$ 77,402 (100%)
TOTAL	\$ 85,947 ===== (63%)	\$ 49,747 ===== (37%)	\$ 135,693 ===== (100%)

The results of our review suggest that a payment verification of all expenditures of AID funds under this project would disclose a large amount of unsubstantiated expenditures.

Controls over P.L. 480 Title I counterpart funds were even less effective. At least since 1981, Title I funds had never been released to the project at the beginning of the fiscal year because of delays in submitting budgets and expenditure reports to the Mission. In fiscal year 1985, the funds were not released until April because Title I funds were used for unauthorized purposes in 1984, and it took seven months to arrange for the return of those funds into an escrow account. In addition, records substantiating expenditures of Title I funds before October 1983 were not available. We were told that records had been kept but that they could not be located. We reviewed the supporting documentation for \$353,204 in Title I expenditures from October 1983 through May 1985, and found that documents supporting 49 percent of the expenditures did not demonstrate that they were project related.

The common problems with documentation substantiating project expenditures were:

- missing supporting documents;
- receipts that did not describe the goods or services purchased;
- travel authorizations/reports that did not specify the dates of travel, places visited, or the purpose of travel, or lacked the employee's or supervisor's signatures;
- lack of evidence that employees paid in cash actually received the payments;

- lack of evidence that the Ministry of Health actually received commodities purchased; and
- receipts for gasoline purchases that did not show the vehicle license plate number.

There were several reasons why accounting for project funds was weak. No systematic accounting procedures were in place during much of the project life. A new accounting system had just been implemented when we began our review, but some employees were having difficulty understanding the system. Some employees did not have accounting manuals when we began our review, but according to a consultant who helped develop the manual, all the employees had received manuals by the time we completed the audit. Also, while the manual described the different types of supporting documents that should be kept, it did not describe those elements the documents must contain to demonstrate that an expenditure is project related. Finally, some employees understood what was required, but evidently did not recognize the importance of strictly adhering to established norms.

As a result of the problems cited, there was inadequate assurance that many project expenditures were in fact project related. Little else was being accomplished on the project while Ministry staff and consultants searched for supporting documents to apply to the bill for collection. Also, it was impossible to determine the total amount of Title I funds spent on the project.

To summarize, accounting for project funds had to be substantially strengthened to provide reasonable assurance that resources were devoted to achieving project objectives. USAID/Haiti should provide for full-time training and supervision over accounting for project funds. This should not, however, be interpreted as relieving the Ministry of Health of its responsibility to properly control project resources. The Mission should obtain evidence that the Government of Haiti is submitting budgets and expenditure reports in a timely manner, permitting the timely release of Title I funds to the project. Finally, the accounting manual should be expanded to describe the elements that supporting documentation must contain to demonstrate that costs are project related. While this level of detail would not normally be required, some Ministry employees were found to lack the qualifications or experience to exercise sound judgement in this matter.

#### Management Comments

USAID/Haiti objected to the recommendation in our draft report that it conduct a payment verification of all disbursements of All funds under the project, and recover any unsupported costs, on the basis that it would be counterproductive. The Mission stated that implementing the recommendation would not be cost-effective, would effectively preclude any other project activities for three to six months, and would apply new and different standards to the approval process. The Mission concurred with the other parts of the recommendation.

### OIG Response

The Mission may be correct in its estimation that the effort involved in supporting past transactions would not be cost-effective. Consequently, we have deleted the parts of the recommendation which would have required payment verification and recovery of unsupported costs already incurred under the project, on the basis that it would be extremely difficult for the Ministry to raise the funds required to pay back unsupported expenditures of AID funds, and that it might be unfair to retroactively impose stricter standards for accounting for AID funds.

#### 4. Warehouse Controls Needed to be Strengthened

The project agreement required that the project be carried out in conformity with sound management practice, which requires that resources be protected from waste, misuse, and theft. However, controls in the Ministry of Health and AGAPCO warehouses we visited needed to be strengthened. Amounts shown on control cards frequently did not match the stock actually on hand, and numerous other control problems also existed. The warehouse employees often did not understand, or did not consistently follow, sound control procedures. As a result, commodities in the warehouses were not adequately safeguarded, and the two organizations lacked the accurate information needed to manage their inventories.

##### Recommendation No. 4

We recommend that USAID/Haiti obtain from the Ministry of Health and the Agency for the Supply of Community Pharmacies evidence that both organizations:

- a) have conducted physical inventories in their warehouses, corrected control cards to show the actual stock on hand, and explained significant discrepancies to the Mission's satisfaction;
- b) have provided written guidance to the responsible employees, detailing appropriate procedures for controlling warehoused commodities; and
- c) are conducting periodic examinations to ensure that specified procedures are being followed.

##### Discussion

Section B.2 of the project agreement provides that the grantee will carry out the project or cause it to be carried out with due diligence and efficiency, in conformity with sound technical, financial, and management practice. Sound management practice requires that resources such as supplies and equipment be protected from waste, theft, and misuse.

Commodities kept in Ministry of Health and AGAPCO warehouses were not adequately safeguarded. In two-thirds of the cases we examined (42 of 64 cases), the amounts shown on the control cards did not match the stock on hand because employees did not understand how the cards should be used, because the cards were not updated in a timely fashion, and because periodic physical inventories were not conducted.

We noted numerous other instances of control weaknesses which pointed out the need to provide additional guidance to employees and verify compliance with established procedures:

- Control cards not used.
- One control card used for more than one type of item.

- Description of the item on the control card so vague that the employee did not know which item in the warehouse it corresponded to.
- Items incorrectly identified on control cards.
- One control card kept for items stored in more than one facility.
- Employee could not locate items shown on control cards, or could not locate control cards for items in the warehouse.
- Items stored in a disorderly manner.
- "First-in, first-out" procedures not followed consistently for perishable pharmaceuticals.
- Expiration dates for pharmaceuticals not shown on control cards.
- Pharmaceuticals allowed to expire.

As a result of these control problems, there was an unacceptable risk of waste, theft, or misuse of commodities in the warehouses, and the two organizations lacked the accurate information needed to make sound inventory management decisions.

In conclusion, controls in the Ministry of Health and AGAPCO warehouses needed to be significantly strengthened. Physical inventories should be conducted to correct the control cards, further guidance should be provided to responsible employees, and periodic examinations should be conducted to verify that sound procedures are being followed.

#### Management Comments

USAID/Haiti concurred in the recommendation, and stated that it planned to use a personal services contractor to act as a warehousing advisor.

## 5. Controls over Project Vehicles and Fuel Were Inadequate

Sound management practice requires that resources be protected from waste, misuse and theft. However, no effective controls existed to ensure that project vehicles and gasoline were used only for official purposes. According to Management Sciences for Health (MSH) officials, controls over project vehicles had been introduced, but were later abandoned. The system for distributing gasoline coupons was evidently devised by Ministry of Health officials who were not concerned with safeguarding resources. In many cases, project vehicles were used for transportation to and from work and for other non-official purposes, and we consider it quite likely that gasoline coupons purchased with project funds were also diverted to personal use.

### Recommendation No. 5

We recommend that USAID/Haiti obtain evidence that:

- a) vehicle use logs are kept for project vehicles, and that vehicle use is restricted to official business; and
- b) the Ministry of Health has implemented a system of control which provides reasonable assurance that gasoline coupons purchased with project funds are used only for project purposes.

### Discussion

According to Ministry of Health records, AID had financed 61 project vehicles. Also, a substantial portion of the Title I counterpart funds spent on the project was used to purchase gasoline coupons. The exact amount could not be determined because the Ministry of Health had not kept adequate records of Title I expenditures. However, the Ministry's Central Bureau alone bought \$49,400 worth of coupons for the second half of fiscal year 1985, reportedly a lower level of expenditure than in previous years. Thus, the total amount involved had to be at least several hundred thousand dollars; MSH's Chief of Party estimated that the total was no less than one million dollars.

Sound management practice requires that effective controls be implemented to prevent waste, diversion, or theft of resources. Effective controls were also needed to ensure compliance with a covenant in the project agreement which stipulated that equipment and materials financed under the project would be used only for project purposes.

No effective controls over project vehicles or gasoline existed. We were told by project consultants that controls such as vehicle use logs, a motor pool, and a vehicle assignment board had been introduced. By the time we conducted our review, however, these controls were no longer in effect. Some Ministry officials were not concerned with preventing personal use of the vehicles, and in some cases it was difficult to enforce the use of vehicle logs because several drivers used the same vehicle.

Gasoline coupons purchased with project funds were distributed to individuals within the Ministry. In some cases, individuals signed a ledger as evidence that they had received coupons, but in other cases there was no evidence that the reported recipients had actually received the coupons. In no case were individuals who received the coupons required to provide any accounting for their use, and the coupons themselves could be used like cash. It seemed to us that this system was devised by officials who were not concerned with safeguarding resources.

In many instances, project vehicles were used for transportation to and from work, and for other non-official purposes. In the Ministry's Transversal Region, we were told that employees were allowed to take project vehicles home because there was no secure area to leave them at night. However, we believe that a watchman could have been hired at negligible cost. In other cases, there was no apparent justification for permitting personal use of project vehicles.

It is extremely likely that some of the gasoline coupons were also diverted to personal use. The coupons were reportedly used as "rewards" for individuals in the Ministry's Central bureau, and given to some individuals in lieu of salary payments.

In summary, controls over project vehicles and gasoline were extremely weak, leading to the diversion of resources from the project. The amount of resources exposed to diversion was substantial, although the exact amount could not be determined because of poor accounting for Title 1 funds. The Ministry of Health must devise an improved system for controlling project vehicles and gasoline. The Ministry should regularly collect completed vehicle use logs for each vehicle, and review them to verify that the vehicles are used only for official business. Employees who refuse to complete the logs should be denied use of project vehicles. The Ministry must also devise an improved system for controlling gasoline coupons. Whenever possible, they should be distributed only for specifically approved trips, but in all cases, employees should account for the use of the coupons.

#### Management Comments

The Mission concurred in our recommendation, and stated that it planned to use a personal services contractor to help implement controls over vehicles and gasoline.

## B. Compliance and Internal Control

### 1. Compliance

The audit disclosed five compliance exceptions:

- AID funds were disbursed while conditions precedent to their disbursement had not been met (Finding 2).
- Accounting for project funds did not comply with standards established in the project agreement (Finding 3).
- Warehouse controls did not comply with standards established in the project agreement (Finding 4).
- Controls over project vehicles and gasoline did not comply with standards in the project agreement (Finding 5).
- The Mission had not prepared a written determination, required by AID Handbooks 1 and 19, justifying its use of sixty days' cash requirements as the criterion for setting advance levels (following report section).

Other than the conditions cited, nothing came to our attention that would indicate that untested items were not in compliance with applicable laws and regulations.

### 2. Internal Control

We noted eight internal control exceptions:

- Realistic project objectives had not been established (Finding 1).
- Management's system for measuring effectiveness needed improvement because accurate information on services delivered was not available (Finding 1).
- Because the relevant conditions precedent had not been met or waived, AID funds were disbursed without adequate assurance that the money would be well spent (Finding 2).
- Controls over project funds did not provide reasonable assurance that expenditures were project related (Finding 3).
- Warehouse controls did not provide reasonable protection against waste, misuse, or misappropriation (Finding 4).
- Controls over project vehicles and gasoline coupons did not afford reasonable protection against waste, misuse, or theft (Finding 5).
- The Agency for the Supply of Community Pharmacies lacked appropriate purchasing procedures (following report section).
- Some significant transactions were not documented in the official project files (following report section).

### C. Other Pertinent Matters

In this section we discuss five matters: (1) overstocked drugs in the Agency for the Supply of Community Pharmacies (AGAPCO), (2) purchases made by AGAPCO without obtaining price quotations, (3) the absence of signs at project sites publicizing AID's involvement in the project, (4) the lack of a written determination justifying USAID/Haiti's use of sixty days' cash requirements as its criterion for setting advance levels, and (5) incomplete project files. While we are not making a formal recommendation, we consider these significant matters requiring corrective actions by USAID/Haiti.

#### Discussion

##### Drugs Overstocked

AGAPCO had almost \$450,000 worth of drugs on hand (valued at cost) in excess of one year's requirements, due to inappropriate purchases and the fact that some drugs were received with little shelf life remaining. Many of these drugs had already expired.

Sound management practice requires that supplies be stocked only in the quantities needed. As of March 31, 1985, AGAPCO had a large quantity of drugs on hand in excess of its requirements:

	<u>Valued at Cost</u>	<u>Valued at Replacement Cost</u>
In excess of 12 months' requirements	\$ 448,535	\$ 275,709
In excess of 18 months' requirements	\$ 421,143	\$ 257,918

As a result, about \$100,000 worth of drugs had already expired (\$73,000 at replacement cost), and others were about to expire.

Drugs were stocked in excess of needs for two reasons. First, inappropriate purchases were made on AGAPCO's behalf by both USAID/Haiti and the United Nations Children's Educational Fund. Seventy - three percent of the overstocked drugs were purchased by USAID/Haiti. According to AGAPCO and Management Sciences for Health officials, these purchases were made without consulting AGAPCO. The second reason was that some drugs were received from suppliers with as little as one year of shelf life remaining.

USAID/Haiti and AGAPCO officials were attempting to resolve the situation by (1) returning drugs to the manufacturer, (2) selling drugs at discounted prices, and (3) donating drugs about to expire to other organizations.

### Price Quotations Missing

Sound management practice requires that price quotations from multiple suppliers be obtained for all but small purchases. In reviewing the documentation supporting expenditures of AID funds, we found five purchases of office equipment and supplies, signs, and artwork (ranging in size from \$100 to \$3,750), for which no price quotations had been obtained. As a result, there was no assurance that AGAPCO had paid a reasonable price for these goods and services. USAID/Haiti should ensure that the Agency adopts procedures establishing thresholds above which informal and formal price quotations from multiple suppliers would be required.

### Project Signs Absent

Signs publicizing AID's support for the project were not present at facilities built with AID funds. The project agreement provided that the Government would publicize the project as a program supported by the United States, and identify project sites as described in project implementation letters. According to the project officer, construction contractors were required to place signs displaying the contractors' names and mentioning that the buildings were financed by AID. When construction was completed, however, the signs were removed and permanent signs were not erected. USAID/Haiti should see that signs are placed at facilities financed by AID.

### Written Determination Needed

AID policy generally limits the amount of advances to recipients' thirty day cash requirements. However, advances may be for up to ninety days' cash requirements if the Bureau Assistant Administrator, Mission Director, or Office Head makes a written determination that applying the thirty day rule would seriously interrupt or impede project implementation. USAID/Haiti was using sixty days' cash requirements as its criterion for setting the level of both local currency and dollar advances, but had not prepared the required determination. In its comments on the draft report USAID/Haiti advised us that the Mission Director had signed a written determination justifying the use of sixty days' cash requirements as its criterion for setting advance levels.

### Project Files Incomplete

Because the official files for the Rural Health Delivery Systems Project did not show the status of many conditions precedent, and did not include all the Project Implementation Orders/Commodities issued under the project, it was difficult to determine the status of the conditions precedent and to determine what commodities had been financed by AID. Mission Order No. 211, "USAID/Haiti Files", dated August 22, 1977, should be revised to indicate what documents must be maintained in official project files.

AUDIT  
OF RURAL HEALTH DELIVERY SYSTEMS  
USAID/HAITI PROJECT NO. 521-0091

PART III - EXHIBIT AND APPENDICES

STATUS OF AID FUNDING

AS OF JUNE 30, 1985

<u>Line Item</u>	<u>Budget</u>	<u>Disbursements</u>
Construction/Renovation	\$ 5,898,000	\$ 4,963,021
Technical Assistance	4,542,000	3,573,722
Equipment/Supplies	1,621,000	965,167
Training	1,955,000	956,678
Drugs/Vaccines	962,000	737,013
Vehicles/Spare Parts	1,378,000	683,363
Salaries	907,000	455,724
Evaluation/Research	<u>237,000</u>	<u>111,445</u>
SUBTOTAL	\$ 17,500,000	\$ 12,446,133
Plus Accruals	<u>                    </u>	<u>615,665</u>
TOTAL	\$ 17,500,000	\$ 13,061,798
	=====	=====

STATUS OF CONDITIONS PRECEDENT  
TO DISBURSEMENT UNDER PROJECT NO. 521-0091  
AS OF SEPTEMBER 12, 1985

<u>Summary of Project Agreement Sections</u>	<u>Status</u>
<u>4.1 Conditions Precedent to Initial Disbursement</u>	
a) Legal opinion on project agreement.	Met, per Project Implementation Letter (PIL) # 2.
b) Designation of representatives.	Met, per PIL # 2.
c) Establishment of project bank account.	Met, per PIL # 2.
d) Time-phased annual implementation plan. *	Met once, per PIL # 2. Recurring requirement not met, although an annual Title 1 budget is submitted.
<u>4.2 Conditions Precedent to Disbursement for Technical Services</u>	
a) List of types of assistance required and proposed schedule of arrivals.	Met, per PIL # 2.
b) Executed contract for assistance.	Met, per PIL # 2.
c) Names of Ministry counterparts.	Met, per PIL # 2.
<u>4.3 Conditions Precedent to Disbursement for Construction or Renovation</u>	
a) Contract for overall management.	Met, per USAID/Haiti letter dated 3/7/80. PIL required.
b) Plans, cost estimates, etc., for construction or renovation of each type of facility for the first year of the project. *	Met, according to project officer. PIL required.

\* Recurring requirement, per Section 4.7 (b).

- |   |   |
|---|---|
| <p>c) For each individual facility:</p> <p>1) Evidence of clear title.</p> <p>2) Provision for maintenance</p>  | <p>Not met. According to project officer, the Ministry had submitted evidence of clear title. However, the Ministry had not provided for adequate maintenance of each facility.</p>   |
| <p>d) For regional level facilities, evidence of regional organization, staffing, and funding.</p>  | <p>Met, according to project officer. PIL required.</p>   |
| <p>e) For district level facilities, evidence of district organization, staffing, and funding.</p>  | <p>Met, according to project officer. PIL required.</p>   |
| <p>4.4 <u>Conditions Precedent to Disbursement for Commodities</u></p>  |   |
| <p>a) Vehicles and Garage Equipment:</p> <p>1) Specifications, schedule for ordering, receiving, and installation, etc. *</p> <p>2) Vehicle maintenance plan.</p>             | <p>Met, according to project officer. According to PIL Nos. 10 and 11, this condition was met for vehicles and \$8,000 worth of garage equipment in fiscal year 1981 only. PIL required.</p>  |
| <p>b) Drugs and Medical Supplies:</p> <p>1) Plan for strengthening logistics system.</p> <p>2) Specifications, schedule for ordering, receiving, and distribution, etc. *</p> | <p>Met for fiscal year 1981 only, per PIL # 11. According to project officer, part (1) has been met; part (2) should be modified to require an annual purchasing plan, based on sales targets and inventory levels. PIL required.</p> |
| <p>c) Warehouse, Dispensary, and Other Equipment: specifications, schedule for ordering, installation, etc. *</p>   | <p>Met, per PIL # 11.</p>   |

4.5 Conditions Precedent to Disbursement  
for Training

The following five conditions were met for disbursement of fiscal year 1981 funds only, per PIL # 15.

a) Health Agent Training:

Approved curriculum, schedule, and cost of training for first year of project, geographic sources of candidates and evidence that adequate provision has been made to supervise and supply trainees. \*

Met, according to project officer. PIL required.

b) Auxiliary Nurse Training:

Same as (a). \*

Met, according to project officer. PIL required.

c) Sanitary Officer Training:

Same as (a). \*

This program was discontinued, so condition should be waived, according to project officer. PIL required.

d) Other In-Country Training:

Approved curriculum and training manual, schedule and cost of training for first year of project, and source and assignment of trainees. \*

Met, according to project officer. PIL required.

e) Overseas Training: \*

1) Agreement with accredited university and approved curriculum.

2) Names of proposed candidates and criteria for selection.

3) Proof that candidates will occupy a responsible position in national health system upon completion of training.

4) Signed commitment from each candidate to return to Haiti to work for the Ministry of Health.

Part (4) was not met, according to project officer; thus, the condition has not been met.

4.6 Conditions Precedent to Disbursement for Personnel Costs

- a) Approved functional statement and staffing patterns for Central Bureau of the Ministry.

Met, per PIL # 8. However, according to the USAID/Haiti semiannual progress report for the period ending 3/31/85, the Ministry has taken no satisfactory action to fulfill this requirement. Our conclusion is that this condition has not been met.

- b) List of positions to receive project salary support and estimated monthly amount per position for first year of project. \*

Met, per PIL # 8 (for fiscal year 1981) and project officer. PIL required.

4.7 Conditions Precedent to Disbursement Subsequent to Year One

- a) Evidence that supplies, salaries, and supervision are being provided in sufficient amounts to maintain service delivery at or above levels foreseen in the Project Agreement.

Not met, according to project officer. Should be waived and made an output of the project. PIL required.

- b) Plans for the following year of operations including information specified in Sections 4.1 (d), 4.3(b), 4.4(a) (1), 4.4 (b)(2), 4.4 (c), 4.5(a-e), and 4.6 (b).

See individual sections above.

4.8 Conditions Precedent to Disbursement Subsequent to Year Two

In addition to the information specified in Section 4.7, plans and schedules for consolidating the maternal/child health and family planning program, the malaria program, and the national health system administered by the Ministry of Health.

Not met and should be waived, according to project officer. PIL required.

AID

UNCLAS

VZCZCETA582ESC910  
 PP RUESTE  
 DE RUESPR #7568/01 3181325  
 ZNR UUUUU ZZB  
 P 131427Z NOV 85  
 FM AMEMBASSY PORT AU PRINCE  
 TO RUEBTG/AMEMBASSY TEGUCIGALPA PRIORITY 0198  
 INFO RUEHC/SECSTATE WASHDC 8776  
 BT  
 UNCLAS SECTION 01 OF 02 PORT AU PRINCE 7568

RECEIVED  
 USAID/HONDURAS  
 18 NOV 1985 13 25  
 C&R UNIT

RECEIVED  
 US AID  
 18 NOV. 1985  
 - RIG OFFICE -

ADJ
DIR
POA
ECO
AU
USO
DCO
INCO
CI
SA
IA
CEM
TEC

AIDAC

E.O. 12356: N/A

SUBJECT: DRAFT AUDIT REPORT ON RHDS PROJECT 521-8891

SUMMARY: CABLE RESPONDS TO IG OFFICE S DRAFT AUDIT REPORT ON RURAL HEALTH DELIVERY SYSTEMS PROJECT.

FOLLOWING ARE MISSION COMMENTS ON THE SUBJECT AUDIT REPORT:

1. RECOMMENDATION NO. 1 - DEFINE REALISTIC PROJECT OBJECTIVES  
 THE USAID INTENDS TO AMEND THE PROJECT WITHIN THE NEXT TWO MONTHS AND EXTEND THE PACD FOR THE PROJECT FROM JUNE 1986 UNTIL DECEMBER 1987. AS THIS AMENDMENT IS PREPARED, USAID WILL REDEFINE PROJECT OBJECTIVES WHICH WILL BE REALISTIC GIVEN THE INSTITUTIONAL AND ECONOMIC CONSTRAINTS IN HAITI.
2. RECOMMENDATION NO. 2 - MAKE NO MORE DISBURSEMENTS UNTIL THE RELEVANT CONDITIONS PRECEDENT HAVE BEEN MET OR WAIVED.  
 USAID BELIEVES THAT SOME OF THE CONDITIONS PRECEDENT HAVE, IN FACT, BEEN MET BUT THAT THIS FACT HAS NOT BEEN PROPERLY DOCUMENTED BY PROJECT IMPLEMENTATION LETTERS. THE PROJECT MANAGER IS PREPARING A MASTER PIL WHICH WILL DOCUMENT THE FACT THAT 7 CONDITION PRECEDENT HAVE BEEN MET USAID INTENDS TO WAIVE 11 CONDITIONS PRECEDENT, BECAUSE WE BELIEVE THEY ARE NO LONGER APPROPRIATE AS CONDITIONS PRECEDENT BUT SHOULD BE CONSIDERED OBJECTIVES TO BE ACHIEVED DURING THE EXTENDED PROJECT.  
 USAID INTENDS TO INSIST ON GOB COMPLIANCE WITH THE CONDITIONS PRECEDENT (SEC. 4.1(D)) WHICH REQUIRES ANNUAL, TIME PHASED IMPLEMENTATION PLANS. THIS WILL BE MET BEFORE FY 86 FUNDS ARE DISBURSED.
3. RECOMMENDATION NO. 3 - ASSURE ADEQUATE ACCOUNTING FOR RESOURCES MADE AVAILABLE UNDER THE PROJECT.  
 USAID INTENDS TO CONTRACT WITH AN INDIVIDUAL (PSC) WHO WILL REPORT DIRECTLY TO THE PROJECT MANAGER WHO WILL PERSONALLY APPROVE ALL DISBURSEMENTS 1PFA USING \$FUND ADVANCED UNDER THE PROJECT BEFORE CHECKS ARE SIGNED. THIS INDIVIDUAL WILL ASSURE THAT THE PROPOSED DISBURSEMENT IS COMPATIBLE WITH PROJECT OBJECTIVES AND THAT THE SUPPORTING DOCUMENTATION IS SUFFICIENT TO DEMONSTRATE THAT THE EXPENSE IS PROJECT RELATED. THE MINISTRY INTENDS TO HIRE TWO ADDITIONAL ACCOUNTANTS TO ASSURE THAT THEY FULFILL THEIR OBLIGATIONS TO ACCOUNT FOR FUNDS MADE AVAILABLE UNDER THE PROJECT. WORKING TOGETHER, THESE THREE INDIVIDUALS WILL NOT ONLY ASSURE THAT PROJECT RESOURCES ARE PROPERLY CONTROLLED BUT THAT SYSTEMS ARE DEVELOPED WHICH WILL RESULT IN INSTITUTIONAL STRENGTHENING. THE AMENDED PROJECT WILL PROVIDE MONEY FOR PERIODIC REVIEW BY AN INDEPENDENT AUDITING FIRM WHICH WILL

UNCLAS

UNCLAS

DO ONE HUNDRED PERCENT PAYMENT VERIFICATION OF EXPENDITURES UNDER UNDER THE LIFE OF THE EXTENDED PROJECT. SHOULD THE AUDITS DEMONSTRATE THAT THE THREE INDIVIDUALS, REFERRED TO ABOVE, ARE NOT PERFORMING CORRECTLY, THEY WILL BE REPLACED. USAID MUST RESIST THE AUDITOR S RECOMMENDATION THAT WE DO RETROACTIVE, ONE HUNDRED PERCENT PAYMENT VERIFICATION FOR THE LIFE OF THE PROJECT. THE USAID BELIEVES THAT THIS WOULD NOT BE COST-EFFECTIVE. THE TABLE ON PAGE 21 OF THE DRAFT REPORT CAN BE MISCONSTRUED. OF THE DOCUMENTS SUBMITTED AND ACCEPTED BY USAID ONLY 13 PERCENT WERE FOUND "QUESTIONABLE" BY THE AUDIT TEAM. THE MINISTRY ADMITS TO BEING UNSURE WHETHER OR NOT THE DOCUMENTS REFERRED TO AS "HELD BY THE MINISTRY" ARE PROJECT RELATED. THEY WERE ACCUMULATED IN A TOTALLY DISORGANIZED WAY BY A FORMER TEAM AT THE MINISTRY. THIS, OF COURSE DEMONSTRATES AN INSTITUTIONAL INABILITY TO PROPERLY CONTROL MONEY. THE CURRENT MOH TEAM HAS SUBMITTED A VOUCHER TO USAID WITH THE SUPPORTING DOCUMENTATION REFERRED TO AS "HELD BY THE MINISTRY", IN ORDER TO ATTEMPT TO LOWER THE OUTSTANDING BILL OF COLLECTION. THEY ARE CURRENTLY UNDERGOING CAREFUL SCRUTINY BY THE CONTROLLER S OFFICE. IT IS NOT CORRECT, HOWEVER, TO SUGGEST THAT THESE DOCUMENTS, OF WHICH 68 PERCENT WERE DEEMED QUESTIONABLE BY THE AUDIT TEAM, WOULD HAVE BEEN ACCEPTED BY THE USAID.

BT

#7568

NNNN

UNCLAS

UNCLAS

VZCZCETA586ZSC911  
PP RUESTE  
DE RUESPB #7568/02 3181400  
ZNR UUUUU ZZH  
P 131417Z NOV 85  
FM AMEMBASSY PORT AU PRINCE  
TO RUEHTG/AMEMBASSY TEGUCIGALPA PRIORITY 0199  
INFO RUEHC/SECSTATE WASHDC 8777  
BT  
UNCLAS SECTION 02 OF 02 PORT AU PRINCE 7568

RECEIVED  
US AID  
18 NOV. 1985  
- RIG OFFICE -

AID  
10  
11  
12  
13  
14  
15  
16  
17  
18  
19  
20  
21  
22  
23  
24  
25  
26  
27  
28  
29  
30  
31  
32  
33  
34  
35  
36  
37  
38  
39  
40  
41  
42  
43  
44  
45  
46  
47  
48  
49  
50

AIDAC

TC RETROACTIVELY CONDUCT A PAYMENT VERIFICATION OF ALL EXPENDITURES UNDER THE PROJECT WILL EFFECTIVELY PRECLUDE ANY MORE PROJECT ACTIVITIES FOR A THREE TO SIX-MONTH PERIOD, WILL BE EXTRAORDINARILY EXPENSIVE RELATIVE TO WHAT THE USAID CAN EXPECT TO COLLECT, AND WILL APPLY NEW AND DIFFERENT STANDARDS TO THE APPROVAL PROCESS. THIS IS ALSO, I AM INFORMED, WITHOUT PRECEDENT. USAID BELIEVES THE NEW MINISTER WHEN HE SAYS HE IS SERIOUS ABOUT IMPOSING STRICT CONTROLS AND THE USAID WILL INSIST ON IMPOSING ITS OWN PEOPLE ON THE MINISTRY IN ORDER TO ASSURE THAT THE SYSTEM PERFORMS CORRECTLY. ARGUING ABOUT THE SUITABILITY OF SUPPORTING DOCUMENTATION SUBMITTED AND ACCEPTED BY THE USAID THREE YEARS AGO WILL NOT ADD TO THE LIKELIHOOD THAT PROPER CONTROLS WILL BE IMPLEMENTED IN THE FUTURE NOR WILL IT CONTRIBUTE TO THE STRENGTHENING OF THE MSPP AS AN INSTITUTION. AS RECOMMENDED, THE NEW ACCOUNTING MANUAL WILL BE REVISED TO INCLUDE SPECIFIC GUIDELINES DESCRIBING THE ELEMENTS WHICH SUPPORTING DOCUMENTATION MUST CONTAIN TO DEMONSTRATE THAT EXPENSES ARE PROJECT RELATED. THESE REVISIONS WILL BE ACCOMPLISHED BY THE TECHNICAL ASSISTANCE TEAM IN THE IMMEDIATE FUTURE.

IN REFERENCE TO RECOMENDATION NO. 3 (C), USAID HAD DISCONTINUED THE TITLE I PROGRAM AND HAS INSTITUTED A TITLE II PROGRAM WHICH WILL BE MANAGED BY AN AUTONOMOUS OFFICE REPORTING TO THE INTER-MINISTERIEL COMMITTEE. THIS COMMITTEE IS ACUTELY AWARE OF ITS RESPONSIBILITIES TO ASSURE THAT TITLE III PROJECT RESOURCES ARE PROPERLY ACCOUNTED FOR AND UNDERSTANDS THAT IF THIS IS NOT DONE THE INITIAL LOAN FUNDS WILL NOT BE CONVERTED INTO GRANT FUNDS. USAID IS VERY IMPRESSED WITH THE INITIAL EFFORTS OF THE TITLE III MANAGEMENT OFFICE TO ASSURE RESPONSIBLE MANAGEMENT OF TITLE III RESOURCES AND ANTICIPATES THAT, AFTER START-UP PROBLEMS ARE RESOLVED, THIS OFFICE AND ITS PARENT COMMITTEE WILL ASSURE ACCURATE EXPENDITURE REPORTS ARE SUBMITTED SO THAT FUNDS MAY BE RELEASED IN A TIMELY FASHION. THE PROJECT MANAGER IS WORKING CLOSELY WITH THE TITLE III PROJECT MANAGEMENT OFFICE TO ASSURE THAT CONTROL OF FUNDS IS GIVEN THE NECESSARY ATTENTION.

4. RECOMMENDATIONS NO. 4 AND NO. 5 - IMPROVING WAREHOUSING PROCEDURES AND CONTROL OVER VEHICLES AND GASOLINE.  
USAID ACCEPTS ENTIRELY THESE RECOMMENDATIONS AND INTENDS TO HIRE A FULL-TIME INDIVIDUAL (PSC) WHO WILL REPORT TO THE PROJECT MANAGER AND HELP INSTITUTE VEHICLE/GAS CONTROLS AT THE MOTORPOOL. HE WILL ALSO ACT AS A WAREHOUSING ADVISOR FOR THE LIFE OF THE EXTENDED PROJECT.

5. RECOMMENDATION NO. 6 - AUDIT FINDINGS.  
THERE WERE 21 GRANTS, COOPERATIVE AGREEMENTS AND SPECIFIC SUPPORT

UNCLAS

UNCLAS

GRANTS SIGNED DURING FY 84 AND FY 85. THE PVO S AND NGO S CURRENTLY REPRESENT 50 PERCENT OF THE IMPLEMENTATION EFFORTS OF USAID/HAITI S PROGRAM. WE BELIEVE THERE IS CONSIDERABLE MANAGEMENT AND OVERSIGHT OF THESE VARIOUS PVO S AND NGO S BY THE PROJECT AND CONTROLLER S OFFICE IN VERIFYING ACCOUNTING SYSTEMS EXIST, WORKING WITH THE PVO OR NGO WHERE ACCOUNTING AND MANAGEMENT SYSTEMS NEED TO BE STRENGTHENED. MEETINGS AND DISCUSSIONS OF PROJECT IMPLEMENTATION, PARTICULARLY RELATED TO DISBURSEMENT OF FUNDS, TAKE PLACE REGULARLY. THE MISSION IS IN PROCESS OF HIRING A PSC FINANCIAL ANALYST WHO WILL PERFORM FULL TIME DUTIES OF REVIEWING SYSTEMS AS WELL AS PERFORMING PAYMENT VERIFICATION OF NGO S.

THEREFORE WE DO NOT BELIEVE RETROACTIVE CHANGES IN AGREEMENTS ARE REQUIRED SINCE THERE IS OVERSIGHT IN THE MISSION AND WE BELIEVE, FOR MAJOF PVO S LOCATED IN THE US, THAT IG/AUDIT/WASHINGTON WOULD BE REQUIRED TO PERFORM HOME OFFICE AUDITS OF EXPENDITURES AND OVERHEADS.

6. RECOMMENDATION NO. 7 - OTHER PERTINENT MATTERS

USAID WILL OBTAIN EVIDENCE THAT AGAPCO HAS DISPOSED OF DRUGS IN DANGER OF EXPIRING. USAID WILL SOON ISSUE A PIL DETAILING MANAGEMENT PROCEDURES TO BE ADOPTED BY THE AGAPCO WHICH WILL INCLUDE DETAILED INSTRUCTIONS CONCERNING PROCUREMENT PROCEDURES. MULTIPLE PRICE QUOTATIONS WILL BE REQUIRED.

ALL CONSTRUCTION CONTRACTS REQUIRED THE POSTING OF SIGNS PUBLICIZING USAID S FINANCING OF THE ACTIVITY. USAID BELIEVES THAT THEY WERE ALMOST ALWAYS ERECTED BUT WERE THEN REMOVED OR LOST. USAID WILL ASSURE THAT THEY ARE REPLACED.

THE USAID DIRECTOR HAS SIGNED A WAIVER JUSTIFYING THE USE OF 60-DAY CASH REQUIREMENTS AS THE CRITERION FOR SETTING ADVANCE LEVELS.

MCMANAWAY

BT

#7568

NNNN

UNCLAS

LIST OF RECOMMENDATIONS

	<u>Page</u>
<u>Recommendation No. 1</u>	4
We recommend that USAID/Haiti, prior to extending the project beyond its present planned completion date or obligating additional funds, reach agreement with the Ministry of Health in establishing realistic project objectives.	
<u>Recommendation No. 2</u>	8
We recommend that USAID/Haiti:	
a) recapitulate for the benefit of the current Minister of Health the status of all conditions precedent through a project implementation letter, and	
b) notify the Ministry that it will discontinue disbursements under this project until the relevant conditions precedent have been met or waived.	
<u>Recommendation No. 3</u>	10
We recommend that USAID/Haiti:	
a) provide for training and full-time supervision over accounting for project funds;	
b) obtain evidence that the Government of Haiti is submitting accurate expenditure reports and budgets in a timely fashion, permitting the timely release of Title 1 funds to the project;	
c) obtain evidence that an addendum to the accounting manual has been provided to responsible staff, describing the elements supporting documentation must contain to demonstrate that expenditures are project related; and	
d) notify the Ministry of Health that future expenditures of AID funds will be subjected to payment verification, and that unsupported expenditures will be disallowed.	

Recommendation No. 4

14

We recommend that USAID/Haiti obtain from the Ministry of Health and the Agency for the Supply of Community Pharmacies evidence that both organizations:

- a) have conducted physical inventories in their warehouses, corrected control cards to show the actual stock on hand, and explained significant discrepancies to the Mission's satisfaction;
- b) have provided written guidance to the responsible employees, detailing appropriate procedures for controlling warehoused commodities; and
- c) are conducting periodic examinations to ensure that specified procedures are being followed.

Recommendation No. 5

16

We recommend that USAID/Haiti obtain evidence that:

- a) vehicle use logs are kept for project vehicles, and that vehicle use is restricted to official business; and
- b) the Ministry of Health has implemented a system of control which provides reasonable assurance that gasoline coupons purchased with project funds are used only for project purposes.

REPORT DISTRIBUTION

	<u>No. of Copies</u>
Director, USAID/Haiti	5
AA/LAC	2
LAC/CAR/H	2
LAC/GC	1
LAC/CONT	1
LAC/DR	1
LAC/DP	1
EXRL	2
LEG	1
GC	1
AA/M	2
M/FM/ASD	2
S&T/HP	1
PPC/CDIE	3