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MANAGEMENT OF AID-FINANCED FERTILITY COMMODITIES

Audit Report Number 79-36

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Area Auditor General, Washington
Agency for International Development
Washington, DC. 20523

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AGENCY FOR INTERNATIONAL DEVELOPMENT
Washington, D. C. 20523

Office of the Auditor General
Area Auditor General - Washington, D. C.

AUDIT REPORT
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DIGEST

Purpose and Scope of the Review

The rate of population growth is recognized as one of the most serious problems in the world today; a problem that has been given worldwide attention by the Congress, academicians, the public, and by voluntary agencies through the administrative efforts and use of substantial resources by this Agency. An integral and sizable part of this effort has been effected through the procurement and distribution of various types of contraceptive devices. The significant value and magnitude of these procurements (an aggregate of over \$98 million since 1974, with obligations of \$27 million in FY 1977 and \$39 million in FY 1978) made it mandatory for us to make a comprehensive review of the administration and management of this inherently complex activity. The focus of our review of commodity transactions pertained to the period April 1, 1976, to March 31, 1977, with selective reviews made in eight developing countries (the Philippines, Indonesia, Panama, Jamaica, Tunisia, Tanzania, Pakistan and Bangladesh) and in AID/Washington.

Significant Findings and Recommendations

Overseeing the procurement and distribution of commodities valued in excess of \$30 million annually to 70 countries with varied social mores, economic and acceptance levels and administrative and managerial skills is an extremely formidable and difficult assignment. The Agency has devoted considerable time and effort to meet this challenge effectively and efficiently. The results of our

review disclosed areas needing management action to effect program improvements, namely:

- The AID Office of Population needs to improve documentation of revisions to mission estimates of commodity requirements.
- Missions should have more latitude in determining commodity needs.
- AID-supported intermediaries should submit commodity requirement estimates on written and more precise bases. Office of Population needs means whereby it receives all population and commodity use information intermediaries have available.
- Host country governments and private intermediaries need to devise and install more stringent commodity accounting procedures so AID will have more precise knowledge of commodity availability and requirements worldwide.
- Commodity shelf life guidelines should be established to lessen risk of losses through deterioration.
- More effective commodity requirement estimates could be achieved by tying procurement to single logistics entity -- generally host country government's logistics systems.

Agency Management Position

When our draft of this report was circulated for management comments in August 1978 the Office of Population reported that steps had already been taken to improve some of the reported deficiencies. These new procedures were reported, in addition to the transmittal of other information and comments, in a draft response submitted by the AA/DS, who indicated his intention that there

be undertaken by DS/POP whatever steps were appropriate after receipt and review of the final audit report, to bring about more precise commodity requirements data and to install more stringent controls and accountability over commodities consigned to host governments and private intermediaries.

MANAGEMENT OF AID-FINANCED FERTILITY COMMODITIES

TABLE OF CONTENTS

	<u>Page</u>
DIGEST	i
LIST OF ABBREVIATIONS	iv
BACKGROUND AND AUDIT SCOPE	1
SUMMARY	4
STATEMENT OF FINDINGS AND RECOMMENDATIONS	8
Requirements	8
General	8
Bilateral Programs	9
Intermediaries	14
Use of Available Commodity Data	17
Commodity Control	18
General	18
Bilateral Programs	18
Intermediaries	22
Commodity Shelf Life	26
Coordination of Distribution Programs	28
Coordination of Logistics Systems	28
EXHIBIT A - AID FINANCED FERTILITY COMMODITIES PROCUREMENT/DISTRIBUTION SYSTEM	
EXHIBIT B - LIST OF AUDIT RECOMMENDATIONS	
LIST OF REPORT RECIPIENTS	

LIST OF ABBREVIATIONS

AAG	Area Auditor General
ABS	Annual Budget Submission
AID	Agency for International Development
AID Mission	United States Agency for International Development
AID/W	Agency for International Development/Washington, D.C. Office(s)
Agency	Agency for International Development
AVS	Association for Voluntary Sterilization
BDG	Government of Bangladesh
DAI	Development Associates International
DS/POP	(AID's) Bureau for Development Support/Office of Population
FPIA	Family Planning International Assistance
GSA	General Services Administration
IPPF	International Planned Parenthood Federation
IPVO	Indigenous Private Voluntary Organization
JHPIEGO	Johns Hopkins Program for International Education in Gynecology and Obstetrics
MISSION	United States Agency for International Development
PATHFINDER	The Pathfinder Fund
PPFA/FPIA	Planned Parenthood Federation of America/Family Planning International Assistance
PSI	Population Services International
PVO	Private Voluntary Organization
USAID	United States Agency for International Development

MANAGEMENT OF AID-FINANCED FERTILITY COMMODITIES

BACKGROUND AND AUDIT SCOPE

In support of its worldwide family planning efforts AID obligated about \$27 million in fiscal year 1977 for the procurement of oral and condom contraceptives, and estimates for fiscal year 1978 were about \$39 million. Thus over 24 percent of the Agency's fiscal year 1978 estimated population budget of \$161.8 million was programmed for orals and condoms.

AID provides fertility commodities through such intermediaries as International Planned Parenthood Federation (IPPF), Planned Parenthood Federation of America/Family Planning International Assistance (PPFA/FPIA), the Pathfinder Fund (Pathfinder), and Development Associates International (DAI), as well as through bilateral programs. The commodities are provided directly to the intermediaries and host governments or purchased by them with AID money. Expendable commodities provided include orals, condoms, intrauterine devices, and contraceptive foams; and such nonexpendable equipment as laparoscopes and medical kits.

The Office of Population in the Bureau for Development Support (DS/POP) is responsible for determining commodity requirements and for procuring fertility commodities for AID-sponsored family planning programs. AID has an agreement with the General Services Administration (GSA) that solicits bids for the purchase of commodities and, based upon the most favorable bids, contracts with appropriate suppliers. Exhibit A shows how orals and condoms flow from the procurement stage to country programs.

Our audit focused on the procurement of orals and condoms which represent the major component of the Agency's expenditures for population commodities. A companion audit currently in process will cover the activities of AID's major grantee for distributing nonexpendable fertility equipment -- JHPIEGO Corporation (Johns Hopkins Program for International Education in Gynecology and Obstetrics).

The audit included AID's management of its commodity program from the requirements determination stage through final distribution. The objectives of the audit were to (1) evaluate the system, criteria, and methodology employed by AID/Washington in coordinating, processing, and controlling contraceptive procurement and shipment and (2) evaluate the system, criteria, and methodology employed by AID missions, intermediaries, and host countries in implementing family planning commodity procurement, distribution and use.

The audit period was April 1, 1976, to March 31, 1977, for commodity transactions. AID procedures discussed herein were those in effect through mid-1977 and applicable to the FY 1979 Annual Budget Submission (ABS)^{1/}.

Audit work was done in AID/Washington and eight developing countries-- the Philippines, Indonesia, Panama, Jamaica, Tunisia, Tanzania, Pakistan, and Bangladesh. The audit work in the eight selected countries was done by the four Area Auditors General (AAGs) having audit responsibility for those countries. Recommendations to, or necessary action for, AID missions were handled by the AAGs either through formal audit reports (Pakistan and Bangladesh)

^{1/} In this report, references to the Annual Budget Submission are to Table 1 "Attachment K" which deals with population and family planning statistics.

or through draft reports or other informal presentations to the responsible missions. The two major suppliers of contraceptives were visited, as well as the central offices of nine AID grantees and contractors operating family planning programs in developing countries.

A draft of this report was circulated to Agency officials on August 4, 1978. Comments were received on September 28, 1978, and considered in this final report.

Recommendations in this report are for resolution by AID/Washington.

SUMMARY

Requirements

The Agency operates family planning programs in countries where sophisticated systems of accountability, record keeping and reporting of acceptor and commodity usage data do not usually exist. Demographic data in many countries is unreliable. Host governments and indigenous private voluntary organizations (IPVOs) while eager to participate are often hampered by political, religious and social mores. Determining contraceptive requirements under these conditions is at best a difficult task. Granting these unfavorable conditions over which DS/POP has little direct control; there are, nevertheless, problem areas DS/POP can control and where action should be taken to effect better estimates of requirements, namely:

- DS/POP needs to better adhere to its guidelines for documenting reasons for revising AID mission estimates of commodity requirements. Subsequent to our audit DS/POP has reportedly revised its commodity data system and is drafting internal procedures which are expected to provide acceptable documentation. We are recommending that details of the revised system and the internal procedures be disseminated to appropriate AID missions and that AAG/W be advised when the procedures have been adopted (pages 9 to 11).
- Bilateral program commodity requirements are determined too frequently by AID/Washington rather than by the AID missions, who should be better able to assess host country peculiarities and develop requirements that more accurately reflect specific country conditions and needs. Accordingly, we are recommending that missions determine commodity requirements (pages 11 to 14).

- Intermediaries also encounter difficulties in obtaining accurate estimates of requirements from the field, and their requirements were frequently transmitted to AID on an informal, verbal basis. We are recommending that intermediaries submit estimates in writing to systematize reporting and to encourage greater diligence and precision in the development of estimated program needs (pages 14 to 17).
- DS/POP did not systematically avail itself of statistical data available from intermediaries, such as commodity usage and stocks on hand and on order. DS/POP has recently developed a regularized system of acquiring and using data from PPFA/FPIA, Pathfinder and AVS. We are recommending the system be applied to all AID-financed intermediaries (pages 17 to 18).

Commodity Control

About 85 percent of AID-financed contraceptives were consigned to host governments under bilateral agreements and 15 percent were channeled through intermediaries. In many cases physical and accounting controls needed improvement to provide minimum safeguards over AID-financed commodities:

- After contraceptives arrived in country under bilateral agreements, accountability was lost at some point in the logistics system due to inadequate warehouse procedures and facilities, and lack of documentation, records and reports. We are recommending that DS/POP channel more effort and resources toward systems development, training of commodity managers and upgrading storage facilities (pages 18 to 21).
- AID-financed contraceptives channeled through intermediaries were also susceptible to loss, diversion and deterioration because of insecure

and crowded storage facilities, improper stacking, and issuing newer commodities rather than the oldest available. Accounting and reporting systems were incomplete and error prone, and required reports were untimely and inaccurate. We are recommending that DS/POP establish minimum standards for physical controls and record keeping and arrange for implementation by the intermediaries (pages 22 to 25).

--Commodity safeguards were further frustrated by an absence of established shelf lives for contraceptives. We are recommending that DS/POP establish and use life of product guidelines and testing procedures (pages 26 to 27).

Coordination of Distribution Programs and Logistics Systems

--A case of poor coordination between a USAID mission and intermediaries operating in the same country was brought to AID management's attention and the Agency has reinforced procedures for notifying missions of other AID-financed entities in the same country (page 28).

--Audit work in the eight selected countries disclosed that more effective estimates of commodity requirements could be determined if commodity procurement was tied to host countries' government logistics systems. We are recommending that guidelines be established so missions can determine within their respective countries if tying procurements for all family planning entities to a single logistics system is feasible (pages 28 to 29).

MANAGEMENT COMMENTS

In commenting on the draft report, the Assistant Administrator, Bureau for Development Support, asked the AG to consider the following questions:

- "Does the report spell out the actual impact of observed deficiencies, demonstrating significant damage to particular portions of the program?"
- "Does the report, . . . , adequately take account of the current state of affairs and procedures?"
- "The report does not discuss undersupply of commodities Does this mean that the Auditor General feels that the system utilized by the Population Office has been defective only in ways which might lead to oversupply rather than undersupply? Has there been adequate attention by the Auditor General to identification of shortage areas and areas of disrupted supply, if any?"

AUDITOR GENERAL COMMENTS

Our audit approach emphasized evaluating the system of control over resources provided and their efficient and effective use. While our audit disclosed no serious situations of undersupply (the "effect" we observed was a situation of oversupply), the causes discussed in this report leave the system vulnerable to conditions of undersupply as well as oversupply.

We believe our audit report is timely. Findings were discussed with management during the course of the audit. As noted in the Bureaus' comments on the draft report as referred to in the following sections corrective actions have been initiated; however, we believe the reported findings reflect accurately the conditions at the time of the audit. The actions reported subsequent to the audit, while evidencing substantial progress, do not fully correct deficiencies addressed by our recommendations.

STATEMENT OF FINDINGS AND RECOMMENDATIONS

REQUIREMENTS

General

The Agency procured condom and oral contraceptives on an annual basis without having complete knowledge of worldwide commodity requirements. Contraceptives were distributed unevenly to developing countries, creating over and possibly under supplies, resulting in the inefficient use of Agency resources.

Reasons for these conditions were:

- Sometimes unreliable, late or unavailable reports from AID missions and intermediaries,
- Absence of reliable demographic data in many developing countries,
- Inaccurate or unavailable acceptor and usage data,
- Slippage by AID in obtaining available statistical data from intermediaries, and
- Slippage by some intermediaries in requiring and obtaining statistical data from recipient entities.

The Agency operates programs in countries where sophisticated systems of accountability and recordkeeping do not usually exist. Political, religious and social mores in developing countries often inhibit Agency management's ability to obtain and document reliable demographic data. While such reasons may be valid deterrents to obtaining precise knowledge of commodity requirements, management could improve its system of accountability to a point where more realistic judgments of commodity requirements may be reached.

Bilateral Programs

AID/Washington

Based on AID/Washington prepared statistics and projection assumptions, missions calculate annual oral and condom requirements and transmit these requirements to DS/POP, AID/Washington. Information thus derived is used in the Annual Budget Submission (ABS) to Congress for funding. DS/POP reviews the information from each country mission and makes final decisions on quantities of contraceptives to be procured for mission bilateral programs. This may result in an increase or decrease in original mission estimates. In some cases DS/POP requests additional information from missions if mission estimates as submitted are not deemed satisfactory.

DS/POP has not always recorded reasons why specific requirement changes were made for a specific country, although provisions to record modifications exist in DS/POP's annual summary of obligation requirements for orals and condoms. The summary provides a means to record the date ABS estimates were revised and by whom.

The FY 1978 DS/POP summary of obligation requirements, prepared during October 1977, contained no explanations for revisions to mission furnished requirements. Although most revisions were minor, two significant revisions increased requirements of orals and condoms for one country from zero to \$125,000 and reduced requirements for one intermediary from \$50,000 to zero.

	ABS Estimates Submitted By Missions	DS/POP Revised Estimates	Cost		
			Original	Revised	Difference
Sudan (orals)	--	476,200 (cycles)	\$ --	\$100,000	+\$100,000
Sudan (condoms)	--	878,000 (pcs)	--	25,000	+ 25,000
Assn. for Voluntary Sterilization (orals)	119,047 (cycles)	--	25,000	--	- 25,000
Assn. for Voluntary Sterilization (condoms)	877,968 (pcs)	--	25,000	--	- 25,000
Total			\$50,000	\$125,000	+\$ 75,000

The ultimate factor, however, in determining annual contraceptive procurement is the amount of funds appropriated by Congress. On balance, we found no indication that funding limitations caused serious shortages of contraceptives. Generally, the problem was one of oversupply.

AA/DS in response to the draft audit report said the program for their computer system had been revised and that written procedures were being drafted to improve internal controls in the Commodity Branch. They believed these initiatives would provide documentation of supervisory reviews and ensure that AID mission commodity requirement estimates are executed with mission concurrence.

When the revised computer system has been implemented and the written procedures have been disseminated such problems as reported above should be prevented.

Recommendation No. 1

The Bureau for Development Support/Office of Population submit details on its revised computer system and procedures to appropriate AID missions, and advise the Area Auditor General/Washington when the new procedures have been adopted.

AID Missions

The criteria developed by AID/Washington, for use by the missions in projecting future commodity requirements, did not always coincide with the real conditions existing in the host countries. This led to misunderstandings and caused conditions of oversupplies in some countries, which had to be corrected through adjustments in subsequent years. For example:

In Panama -- The AID mission, because of a significant oversupply of condoms, revised its FY 1979 ABS (prepared in early 1977) requirements estimate and planned to cancel an order for two million condoms. The mission requested no more deliveries until 1980. This resulted in a downward adjustment of 18,740,500 condoms for the period 1977-1980. One reason for past overestimates and the resulting oversupply, according to USAID/Panama, was that the FY 1978 ABS was based upon an eligible population of all women 15-49 years of age. The succeeding year the bases were married women 15-49 years of age.

In Tunisia -- Mission personnel said an adjustment in the AID/Washington statistical information was made because previously all women in the

reproductive age group (15-49) were considered whereas a later adjustment considered only married women within the 15-49 age group. This was expected to have a considerable impact on future commodity needs.

In Indonesia -- The eligible age group was considered to be 15 through 44 whereas AID/Washington used an age grouping of 15 through 49. Also, according to mission personnel, about 10 percent of AID/Washington's target population lived in remote areas beyond the reach of Indonesia's present family planning program.

In Pakistan -- An assumption that an inundation of contraceptives would cause about 65 percent of the eligible population to use some method of fertility control proved overoptimistic. A 1976 survey showed about six percent of eligible couples reportedly using contraceptives. In about mid-1976, USAID officials estimated that some district warehouses had stocks sufficient to last from eight to 14 years. Consequently, in September 1976 the mission stopped all further shipments and no contraceptives were received after December 1976. During April 1976 through December 1976 over 6.6 million cycles of orals and almost 1.5 million gross of condoms were shipped to Pakistan through the bilateral program.

Precise annual requirements data on commodities is difficult to determine either in Washington or the field because reliable demographic data is unavailable in many developing countries, and acceptor and usage data is often inaccurate or unavailable.

Nevertheless AID missions, because they are closer to, and more familiar with, host country peculiarities, are better able to develop sound projection assumptions and population statistics that more accurately reflect conditions peculiar to countries under their purview than can AID/Washington. The Administrator's policies toward AID program management state in part:

"...decision-making on both project development and implementation should be shifted to a larger extent from AID's central staff offices to the geographic bureaus and in turn from the geographic bureaus to the field missions..." (June 1977 telegram from AID Administrator to Mission Directors)

In responding to the draft audit report AA/DS stated that centralized procurement has resulted in a reduction of commodity prices. DS/POP agreed that commodity shipments should be approved by the USAIDs (and careful attention given to USAID computations of requirements); however, they contend that managers of the centralized procurement activity must have flexibility to match shipments with production levels; although USAIDs are consulted to determine flexibility in receiving shipments and to effect changes in shipping schedules. With respect to the demographic data base, DS/POP's response stated that in the year since audit field work was completed, progress has been made in developing more reliable data. The most significant example cited was the World Fertility Survey.^{1/}

^{1/} AID is funding a worldwide fertility survey through the International Statistical Institute in The Hague, Netherlands. The project has as one of its objectives the strengthening of statistical data gathering and analyzing methods throughout the world.

We believe, however, that more emphasis on shifting the determination of requirements to the field is needed and accordingly recommend that:

Recommendation No. 2

The Assistant Administrator, Bureau for Development Support, instruct AID missions to determine contraceptive commodity requirements based on conditions peculiar to their respective countries.

Intermediaries

AID has agreements with private organizations that conduct family planning programs throughout the world such as:

International Planned Parenthood Federation (IPPF)

Planned Parenthood Federation of America/Family Planning

International Assistance (PPFA/FPIA)^{1/}

The Pathfinder Fund (Pathfinder)

Population Council

Population Services International (PSI)

Development Associates International (DAI)

Association for Voluntary Sterilization (AVS)

Westinghouse

Syntex (Cancelled in April 1978)

JHPIEGO Corporation (Johns Hopkins Program for International Education in Gynecology and Obstetrics)

^{1/} PPFA is an association of United States planned parenthood organizations. FPIA is a department established to implement AID grant activities.

These organizations are supplied with contraceptives and equipment procured through GSA and shipped to the various countries in which they have programs. In the cases of AVS, IPPF, PPFA/FPIA, Pathfinder and JHPIEGO, commodities are usually shipped to U.S. warehouses until needed in the field.

For substantially the same reasons that reliable data is difficult to obtain for bilateral requirements, AID-financed intermediaries do not receive accurate requirement data consistently.

In addition a significant portion of intermediary commodity estimates were based on non project ad hoc requests from IPVOs, clinics, hospitals, and doctors. For example, about 40 percent of Pathfinder's FY 1977 estimated commodity requirements were for non project use. And during the year from April 1976 through March 1977 over 65 percent of PPFA/FPIA's shipments were to non project recipients. The intermediaries have not received, nor have they required, the diligent commodity use and inventory feedback from these non project agencies as they do from their formal project recipients. This data shortfall hampers future requirements estimates by such intermediaries as Pathfinder and PPFA/FPIA.

Intermediaries have been permitted to transmit commodity requirements estimates to AID on an ad hoc, informal and usually verbal basis rather than via a systematic reporting system.

Consequently, during the audit period intermediaries and their field organizations had more commodities on hand than they needed. In July 1977 Pathfinder

had 3.6 million cycles of orals in their Boston warehouse and they had already notified AID to postpone delivery of five million cycles scheduled under the 1977 program. In Bangladesh PPFA/FPIA affiliates were overstocked with condoms and pills. For example:

--The Kapadpur Welfare Association had an inventory of pills sufficient for 775 months and an inventory of condoms sufficient for 89 months.

--The Taj Jute Lacking, near Dacca, had an inventory of pills sufficient for 29 months and an inventory of condoms sufficient for 37 months.

--The Nazir Shankerpur Kriski Union had an inventory of pills sufficient for 21 months and an inventory of condoms sufficient for 105 months.

DS/POP disputed our conclusion that country associations were overstocked and that commodity requirements estimates were inaccurate. They submitted information obtained from PPFA/FPIA. That information referred to the Nazir affiliate and indicated that commodities were received about six months later than the date of receipt verified through our audit. Hence, according to DS/POP's unverified information from PPFA/FPIA the affiliate was not overstocked.

The fact that some intermediaries and their affiliates had more commodities on hand than they needed at a particular point in time is indicative of the fact that the intermediaries do not always know their commodity needs and do not convey their needs to AID in a systematic, formal manner.

DS/POP did not dispute our suggestion that if AID required formal, written estimates of commodity requirements from intermediaries, they would be more diligent and precise in their commodity estimates. To the extent that intermediaries have not provided documentation, DS/POP agreed to implement the following recommendation to the extent that implementation "...does not damage effective, timely flow of commodities."

Recommendation No. 3

The Bureau for Development Support/Office of Population devise procedures whereby intermediaries are required to report contraceptive requirements systematically in writing and in a timely manner, with reasonable justification for revisions.

Use of Available Commodity Data

Intermediaries had accumulated considerable commodity and demographic related data such as usage, inventories and numbers of acceptors that was not used by DS/POP. For example, PHA/POP's (now DS/POP) 1975 Annual Statistical Report showed such information as commodities on order, received, and numbers of acceptors as "not available."

The AA/DS, in response to this finding, reported that more orderly and complete reporting from intermediaries is, indeed, needed, and steps have been taken to obtain and make more extensive use of data that PFFA/FPIA, Pathfinder and AVS have available thus complimenting data being received from IPPF which AA/DS considers reasonably adequate.

The above action already taken by DS/POP should enhance the usefulness of population related statistical reports. However, DS/POP should expand their efforts to obtain all the available statistical information that all intermediaries can provide.

Recommendation No. 4

The Bureau for Development Support/Office of Population initiate and implement a formal, systematic method for requesting, from all intermediaries, commodity and family planning statistical data needed for accurate AID planning and reporting.

COMMODITY CONTROLS

General

Accountability for commodities as well as adequate provisions for storage needed improvement to meet minimum criteria for reporting feedback necessary to evaluate the program and plan future requirements, and to provide adequate safeguards over AID-financed commodities.

Improvements were needed in the delivery process from the point of entry into the system through final distribution to recipients for both the bilateral programs administered by host governments and the programs administered by intermediaries and their counterpart indigenous private voluntary organizations.

Bilateral Programs

About 85 percent of AID-financed contraceptive commodities were consigned under bilateral agreements directly to host country government agencies from

manufacturers. DS/POP was routinely notified regarding shipments made, and notices of receipt were subsequently provided by the recipient government agencies for reconciliation with shipping data. There was adequate control up to the point of receipt by the host government. However, after commodities arrived in country, there were lapses in record keeping and physical control that precluded reconciliation, verification and accurate reporting of receipts, distributions and inventories.

The degree of control over commodities varied from country to country. However, in all countries visited accountability for pills and condoms was lost, and reporting was inadequate, at some point after receipt in country and before ultimate issuance to recipients.

At the point of distribution to recipients, every country visited had inadequate records and physical facilities to provide minimum accountability for commodities and minimum acceptable reporting of commodity receipts, inventories, and acceptor statistics. As a result, consolidated inventories reported for orals and contraceptives excluded supplies located at distribution points; known in-country inventories normally included only central and provincial or district warehouses. In this situation project management recorded the commodities as issued at some drop-out point in the pipeline. This resulted in recorded inventories being understated and reported consumption being overstated. For example:

In Bangladesh -- where over 6 million cycles of orals were shipped during the year ended March 31, 1977, known inventories represented only stock on hand at the central warehouse and 19 district warehouses. Inventories

in 422 country-level storage depots and in the hands of 19,000 workers who distributed to clinics and house to house, were not included in inventory data. Generally warehouses were insecure or too small.

In the Philippines -- 500,000 cycles of orals and 200,000 gross of condoms were provided through their system of 2,897 clinics and 11 regional offices. Audit tests showed that stock records either were not maintained or were not reconciled to physical inventories. Consolidated monthly reports of country-wide inventories took about three months to prepare and were incomplete because a substantial number of the 2,897 clinics failed to submit prescribed inventory reports.

In Tunisia -- inventory records for the AID-provided 670,000 cycles of orals and the 47,000 gross of condoms did not include stocks at family planning clinics.

In Panama -- only the central warehouse maintained control records on the 17,000 gross of condoms and 200,000 cycles of orals provided during the audit period.

DS/POP officials stated that the situation in Bangladesh was an information gap and that USAID and host government personnel have made improvements because of a proper degree of attention placed on this problem vis-a-vis the many other problems that must be solved. In the Philippines, they believed the problem was largely "organizational" and Philippine officials were reluctant to use outside

assistance that could be helpful in these management areas. Overall, DS/POP sees this problem as inadequate reporting of stocks available for distribution.

The problem is more fundamental. Host governments could not adequately account for AID-financed commodities. On balance, conditions in developing countries may preclude the logistic sophistication enjoyed in the United States. Nevertheless, Agency management should channel the necessary effort and resources toward (a) developing standardized systems, (b) training commodity managers, and (c) upgrading storage facilities and providing the necessary forms, reports, inventory cards and other material to develop the necessary accountability and reporting for this major AID program. As a result of an AID-financed consultant's work in Bangladesh, for example, a 20 point guideline for storage of fertility commodities to achieve standards necessary to prevent spoilage and achieve accounting and physical controls was developed. As the Agency financed the consultant's work, the information should be shared worldwide with AID's counterparts.

Recommendation No. 5

The Bureau for Development Support/Office of Population disseminate the "20 point guideline" and establish and implement procedures encompassing minimum standards for record and physical controls over contraceptive commodities provided under bilateral programs.

Intermediaries

About 15 percent of AID-financed contraceptives are provided through intermediary organizations. Logistic arrangements provide for the shipment of condoms and orals from manufacturers to either the intermediaries' U.S. warehouses or directly to their overseas programs. Overseas shipments, whether direct from manufacturers or from intermediaries' warehouses, may be consigned to the intermediaries own in-country representatives or to Indigenous Private Voluntary Organizations (IPVOs) providing family planning services. The intermediaries' logistics systems are intended to provide a flow of commodities through the pipeline from manufacturer to user with only a small fraction of requirements stored in warehouses at any one time. Stateside warehousing operations were functioning satisfactorily at the time of our audit.

As with commodities furnished under bilateral programs, in-country accountability for intermediaries' orals and condoms was lost at some point in the pipeline. Crowded and insecure storage facilities were commonplace. Even where there were adequate facilities, practices such as improper stacking and random stock issuing caused damage and deterioration. Intermediaries' and IPVO's accounting systems were often incomplete and error prone; required reports were not submitted or were not timely nor accurate. Intermediary programs are centrally funded and AID missions' in-country monitoring responsibilities are not clearly defined. In some countries, IPVOs had access to AID-financed commodities through both bilateral programs with the host country and through intermediaries' supply systems. This duplication, particularly in the absence of acceptable accounting and reporting systems and in the presence

of sales programs whereby field workers were authorized to share in sales income, made it extremely difficult to establish effective internal controls on both inventories and cash proceeds. For example:

In Bangladesh -- where 241,000 gross of condoms and 3.6 million cycles of pills were provided to intermediaries, we found that IPVOs used insecure thatched houses for storage and inventories could not be readily counted due to crowded conditions and haphazard stacking practices. IPVO requirements were overstated resulting in excess inventories. Accounting records were not maintained and field visits by the intermediaries were infrequent. For example, PPFA/FPIA had not verified membership numbers of IPVOs requesting commodities; IPVOs established their own requirements and PPFA/FPIA did not verify the information submitted; relied on its freight forwarder to inform IPVOs of the commodity amounts shipped, and, in turn, commodities received by IPVOs were confirmed to PPFA/FPIA by the freight forwarder; policies on records to be maintained were not defined; actual commodity use was not determined; complaints on side effects of pills and resultant ramifications were unattended; and IPVOs were not required to periodically report on inventories and acceptor coverage -- hence, such reporting was not submitted. It was impossible for the intermediaries and the Bangladesh government to determine country-wide inventories, or to reconcile quantities issued with consumption and numbers of recipients. Subsequent to issuance of our country specific audit report in Bangladesh PPFA/FPIA conducted questionnaire surveys and established requirements for periodic IPVO reports.

In Pakistan -- where 38,000 gross of condoms and 195,000 cycles of pills were channelled through intermediaries, physical facilities were too small to allow proper stacking and storage. It was not possible, at the time of our field visits, to physically inventory commodities without removal of a portion of the commodities and restacking the balance. The Family Planning Association of Pakistan branches, projects and field workers have contraceptive commodities available from other sources which creates unrealistic estimates of commodity requirements and precludes control over distribution (either free or by sale) because supplies drawn from Government of Pakistan stocks (also AID financed) are not reported by the field workers to the intermediaries.

In the Philippines -- 326,000 gross of condoms and 500,000 cycles of pills were provided to intermediaries. Clinics visited were not monitoring stock records and there was no evidence that physical inventories had been taken. Clinics were transmitting activity reports through improper channels which bypassed supply depots. As a result, supply points could not compare issuances with utilization and balances on hand.

Visits to intermediaries' headquarters in the United States disclosed that some of the conditions noted in the field stem from less than adequate central management and monitoring as in the following example of PPFA/FPIA:

PPFA/FPIA headquarters did not require feedback about fertility commodity use from its non project (IPVO) activities on a standard as stringent as that for its project activities. Before shipping fertility commodities

to an IPVO for the first time, PPFA/FPIA sends a questionnaire that generally requires responses on the purpose and type of organization and specific amounts of commodities needed. Reportedly, both the PPFA/FPIA regional representative and headquarters personnel review the questionnaires. At year-end, PPFA/FPIA sends a follow-up questionnaire that contains queries about acceptors, methods of contraception, training and personnel, but does not contain requests for such data as contraceptive inventory balances or amounts used. We were advised that PPFA/FPIA does not attempt to obtain the information on the follow-up questionnaire beyond a second request. As a result, IPVO feedback on use, acceptors and inventories was virtually nonexistent at the time of our audit. (Also see earlier comments on IPVOs under Requirements, page 15.)

DS/POP responding to our draft report stated that PPFA/FPIA's West Asia Regional Office had taken action to improve commodity controls with respect to Bangladesh IPVOs.

As with bilateral programs, conditions in developing countries may preclude full conformity to commodity control standards. Nevertheless, Agency management should require intermediaries and their IPVOs to establish minimum controls over AID-financed commodities.

Recommendation No. 6

The Bureau for Development Support/Office of Population establish minimum standards to record and physically control commodities provided to intermediaries, and install procedures for monitoring compliance with those standards.

Commodity Shelf Life

Commodity shelf life information has been available to DS/POP, but it has not been effectively disseminated and used by the various host country entities. Reports from the Philippines and Panama, for example, stated that shelf life data was not made available to appropriate individuals responsible for distribution of commodities. Our audit disclosed no serious conditions of condom or oral spoilage, but with the increasing quantities of commodities being purchased, spoilage and deterioration become an ever increasing factor in commodity control.

The shelf life of orals is generally accepted as five years. According to Office of Population testimony to a Congressional Subcommittee on Appropriations in 1977, the approximate shelf life of condoms under varying temperature conditions was projected as:

<u>Storage Temperature</u>		<u>Approximate Shelf Life</u>
<u>Centigrade</u>	<u>Farenheit</u>	<u>Years</u>
23°	73.4°	20
30°	86.0°	13
35°	95.0°	8
40°	104.0°	5
45°	113.0°	3
50°	122.0°	1.5

These results were obtained through an agreement between AID and the National Bureau of Standards during 1974 and 1975.

DS/POP managers, in responding to the draft audit report, stated that it is not advisable or appropriate to establish commodity expiration dates. They stated that a number of alternatives have been or are being established to assure that program managers are aware of product shelf-lives. Manufacturers place the date of manufacture on shipping cartons. Studies, including an independent study by the Population Council, are being conducted to determine the effect different kinds of packaging has on the shelf life of condoms. The International Standards Organization^{1/} is working on product standards, and an airgram, to provide the field with current general information regarding conditions affecting shelf life, was to be sent to AID missions.

Pending actions necessary to establish and disseminate complete shelf life guidelines, we recommend that:

Recommendation No. 7

The Bureau for Development Support/Office of Population in conjunction with the Bureau of Program and Management Services/Office of Commodity Management establish and disseminate shelf life guidelines and periodic field testing procedures for condoms and orals financed by AID.

1/ A non-government, worldwide group devoted to developing international uniform product standards. U.S. affiliate, the American National Standards Institute, is located in New York City.

COORDINATION OF DISTRIBUTION PROGRAMS

Two AID intermediaries (AVS and PPFA/FPIA) initiated fertility commodity deliveries to organizations in Tanzania without the knowledge of the mission population officer. Apparently, neither AID/Washington nor the intermediaries properly informed the mission that these specific delivery programs were planned. This situation is symptomatic of a weakness in the distribution of AID fertility commodities. A case of possible diversion in Bangladesh, for example, has been referred to the AG, Office of Inspections and Investigations, for further review.

AA/DS stated that procedures are already established to notify missions of those intermediaries that are operating within their countries. Officials believe that the situation in Tanzania resulted from an apparent lapse in normal communications. They agreed, however, to take steps to ensure that Bureau for Development Support policy regarding mission notification is closely observed. Based on the AA/DS response, no further action is recommended.

COORDINATION OF LOGISTICS SYSTEMS

In our draft report we proposed that DS/POP evaluate the feasibility of tying intermediaries' contraceptive procurement to host government's logistics systems, because we concluded that host country responsibility for all logistics would achieve the development of better estimates of requirements and lower costs. At the time of the audit, the degree of logistics coordination between host governments and intermediaries varied from country to country. In Indonesia, a government agency took responsibility for coordinating estimated

requirements and was the single distributing agency for contraceptive supplies. In Bangladesh and Pakistan, on the other hand, the major intermediaries and the host government determined their own requirements and maintained separate distribution systems.

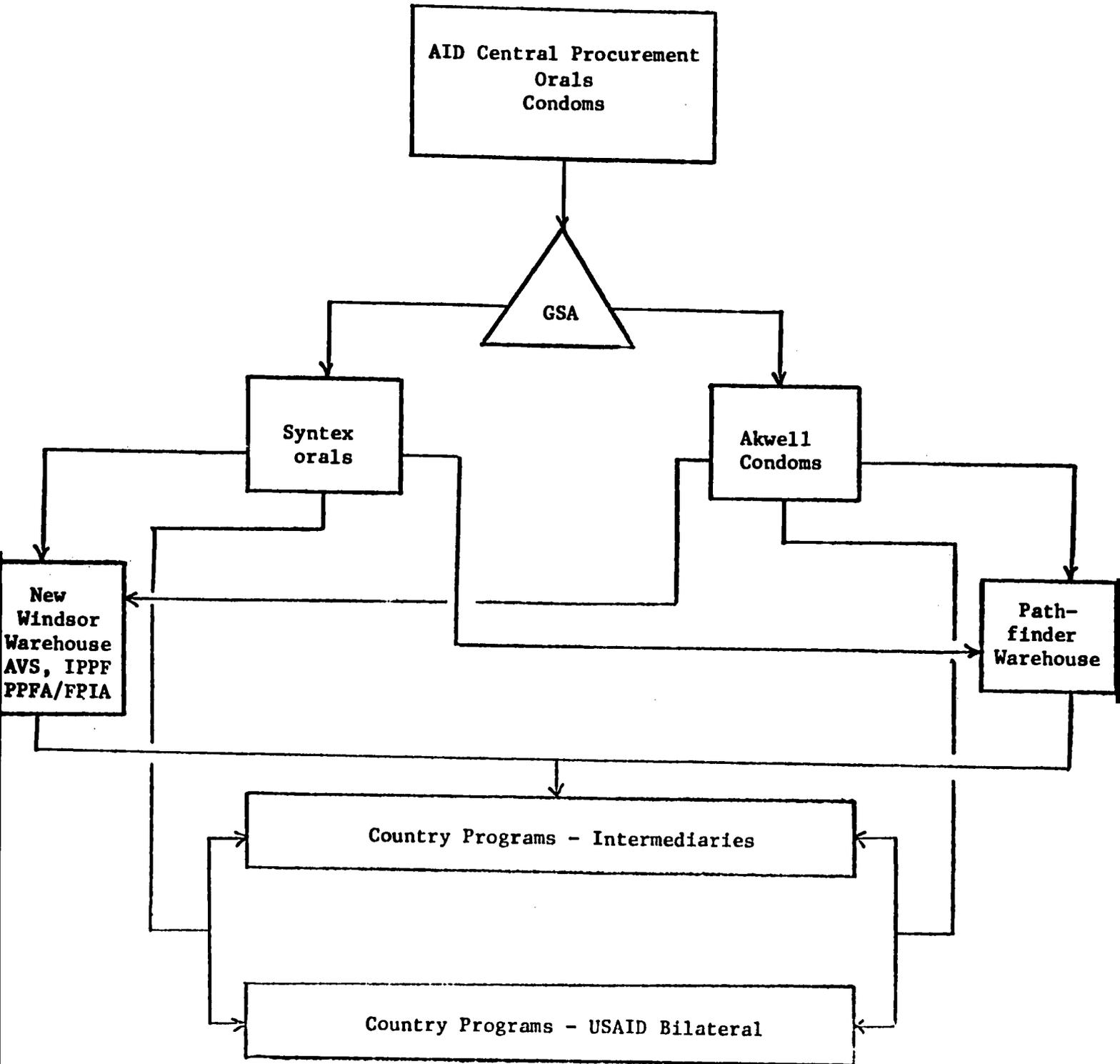
The DS/POP response noted that there are a number of considerations involved which dictate ad hoc determinations of the degree of integration of logistics systems. The more important considerations cited were (a) the effect of such integration on intermediaries' in-country independence and (b) questionable host government capability to handle the increased pipeline. In Bangladesh, for example, AID officials believed that the host government relied on the major intermediaries to accomplish contraceptive distribution because the government's own system was inadequate; therefore, it would be difficult for managers to accept a recommendation to tie into the government's logistic system.

DS/POP agreed, however, that the feasibility of tying contraceptive procurement to host government logistics systems should be determined to the extent that the determination is made by local USAID missions.

Recommendation No. 8

The Bureau for Development Support/Office of Population develop guidelines for AID missions to determine the feasibility of tying contraceptive procurement to host government logistics systems.

AID-FINANCED FERTILITY COMMODITIES
PROCUREMENT/DISTRIBUTION SYSTEM



LIST OF AUDIT RECOMMENDATIONS

Recommendation No. 1

The Bureau for Development Support/Office of Population submit details on its revised computer system and procedures to appropriate AID missions, and advise the Area Auditor General/Washington when the new procedures have been adopted.

Recommendation No. 2

The Assistant Administrator, Bureau for Development Support, instruct AID missions to determine contraceptive commodity requirements based on conditions peculiar to their respective countries.

Recommendation No. 3

The Bureau for Development Support/Office of Population devise procedures whereby intermediaries are required to report contraceptive requirements systematically in writing and in a timely manner, with reasonable justification for revisions.

Recommendation No. 4

The Bureau for Development Support/Office of Population initiate and implement a formal, systematic method for requesting, from all intermediaries, commodity and family planning statistical data needed for accurate AID planning and reporting.

Recommendation No. 5

The Bureau for Development Support/Office of Population disseminate the "20 point guideline" and establish and implement procedures encompassing minimum standards for record and physical controls over contraceptive commodities provided under bilateral programs.

Recommendation No. 6

The Bureau for Development Support/Office of Population establish minimum standards to record and physically control commodities provided to intermediaries, and install procedures for monitoring compliance with those standards.

Recommendation No. 7

The Bureau for Development Support/Office of Population in conjunction with the Bureau of Program and Management Services/Office of Commodity Management establish and disseminate shelf life guidelines and periodic field testing procedures for condoms and orals financed by AID.

Recommendation No. 8

The Bureau for Development Support/Office of Population develop guidelines for AID missions to determine the feasibility of tying contraceptive procurement to host government logistics systems.

MANAGEMENT OF AID-FINANCED FERTILITY COMMODITIES

LIST OF REPORT RECIPIENTS

Assistant Administrator, Bureau for Development Support (AA/DS)	5
Assistant Administrator, Bureau for Private and Development Cooperation (AA/PDC)	1
Assistant Administrator, Bureau for Africa	1
Assistant Administrator, Bureau for Asia	1
Assistant Administrator, Bureau for Latin America and the Caribbean	1
Assistant Administrator, Bureau for Near East	1
Assistant Administrator, Bureau for Program and Management Services (AA/SER)	1
Office of Commodity Management (SER/COM)	1
Office of Contract Management (SER/CM)	1
Office of Management Planning (SER/MP)	1
Office of Program (DS/PO)	1
Office of Population (DS/POP)	5
Auditor General	1
AG/IIS	1
AG/PPP	1
AG/EMS (C&R)	12
AAGs	1
Office of Development Information and Utilization (DS/DIU)	4