

PD-AAZ-906
1989-09-15

AUDIT OF
SWAZILAND PRIMARY HEALTH CARE
PROJECT NO. 645-0220

AUDIT REPORT NO. 3-645-89-18
September 15, 1989

UNITED STATES OF AMERICA
AGENCY FOR INTERNATIONAL DEVELOPMENT
REGIONAL INSPECTOR GENERAL/AUDIT

UNITED STATES POSTAL ADDRESS
BOX 232
APO N.Y. 09875

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POST OFFICE BOX 30261
NAIROBI, KENYA

September 15, 1989

MEMORANDUM FOR DIRECTOR, USAID/Swaziland, Roger D. Carlson

FROM: Richard C. Thabet, RIG/A/Nairobi



SUBJECT: Audit of Swaziland Primary Health Care
Project No. 645-0220

The Office of the Regional Inspector General for Audit, Nairobi has completed its audit of the Swaziland Primary Health Care Project No. 645-0220. Five copies of the audit report are enclosed for your action.

The draft audit report was submitted to you for comment and your comments are attached to the report. The report contains three recommendations. Recommendations Nos. 1 and 2 are resolved and will be closed upon receipt by this office of evidence that the cited actions are complete. Recommendation No. 3 is unresolved. Please advise me within 30 days of any additional actions taken to implement Recommendation Nos. 1 and 2 and further information you might want us to consider on Recommendation No. 3.

I appreciate the cooperation and courtesy extended to my staff during the audit.

EXECUTIVE SUMMARY

The purpose of the Swaziland Primary Health Care Project was to improve the health of Swazi women and young children. The project was approved on August 23, 1985 and was to be completed by December 31, 1990. The Agency for International Development was expected to contribute \$5.7 million and the Government of Swaziland was to contribute \$2.2 million including costs borne on an "in-kind" basis.

The Office of the Regional Inspector General for Audit, Nairobi (RIG/A/N) made a performance and economy and efficiency audit. The audit objectives were to determine whether the project was making satisfactory progress towards meeting its objectives, resources were used efficiently and the Government of Swaziland was contributing resources as agreed.

The Swaziland Primary Health Care Project was not making adequate progress towards meeting its objectives, as project objectives were too ambitious to be met by a single project. In addition, project resources were inefficiently used in that only 31 percent of project activities planned to be completed by December 31, 1988 had been completed, while 97 percent of project funds planned for those activities had been spent. Further, the Government of Swaziland had not contributed resources to the project as agreed.

Even though project progress was unsatisfactory, the project had successfully initiated many activities. For example, significant training of nurses and health administrators had been accomplished through seminars, workshops, study tours and through placing participants in training institutions in the United States and other countries. The project had also helped to decentralize health administration and improve clinic management.

The audit disclosed that three areas needed improvement. First, project design included overly ambitious Government of Swaziland targets for improvements in primary health care, which were neither specific nor measurable. Second, project management had not taken sufficient action to correct design and implementation problems. Third, the Government of Swaziland had not contributed resources to the project as agreed.

A.I.D. Handbook 3 required that project design include realistic and measurable goals. However, some project goals were unrealistic or were not measurable. This happened because the Government of Swaziland insisted that national health targets be adopted as project goals. As a result, little progress had been made toward the project's objectives. This report recommends that USAID/Swaziland redesign the project to

include realistic targets, a methodology for measuring accomplishments, a reduction in project activities, and a prioritization of project activities. USAID/Swaziland agreed with the recommendation and stated that action had been taken to implement the recommendation.

A.I.D. was required to monitor results of development assistance and take appropriate actions on the basis of the monitoring to ensure that public funds were used as efficiently as possible. USAID/Swaziland, however, did not take timely action to correct known problems in project design, financial reporting and project management. This happened because USAID/Swaziland officials relied on a formal project evaluation to make recommendations to correct these problems. As a result, project implementation was behind schedule and resources were used inefficiently. This report recommends that USAID/Swaziland design a system to improve financial management, modify the workplan to reflect appropriate activities, meet quarterly with the contractor to monitor progress, and reduce the contractor chief-of-party's administrative responsibilities. USAID/Swaziland agreed with the audit recommendation and stated that it was in the process of implementing it.

The Government of Swaziland agreed to contribute not less than \$2,245,000 to the project, including \$1,745,000 through Ministry of Health budgetary resources and \$500,000 from extra-budgetary sources. However, the Government did not contribute resources as agreed. This occurred because the Government did not follow through on its commitment to generate extra-budgetary resources and USAID/Swaziland officials did not effectively enforce the project agreement. As a result, the project was potentially deprived of resources totalling \$634,500, and the Government may not be meeting the statutory requirement to contribute 25 percent of total project funds. This report recommends that USAID/Swaziland require the Government to make contributions as agreed or amend the agreement, periodically verify the Government's contributions, and require the Government to pursue alternative methods for increasing its contribution. USAID/Swaziland disagreed with the recommendation, primarily because it believed the Government was contributing 25 percent of project costs, and was not required to make all the contributions included in the project agreement.

*Office of the Inspector
General*

AUDIT OF
SWAZILAND PRIMARY HEALTH CARE PROJECT

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AUDIT OF
SWAZILAND PRIMARY HEALTH CARE PROJECT

PART I - INTRODUCTION

A. Background

The purpose of the Swaziland Primary Health Care Project was to improve the health of Swazi women and young children. Improved health was to be achieved by upgrading and expanding Swaziland's primary health care system. Decreases in infant and child mortality rates were to result from improvements in eight areas: pre-natal care, oral rehydration therapy, attended deliveries, post-partum education, immunizations, growth monitoring, family planning and treatment of priority diseases. Improvements were to be achieved through additional health training, improved clinic management, decentralized health administration, and coordinated maternal and child health programs. Improvements were also expected in health research, financing, planning, budgeting and financial management, and nursing education.

Project inputs were expected from other donor programs and other A.I.D.-funded projects, which provided primary health services similar to the services offered by this project. A project implementation committee was expected to coordinate the activities of the project with those of other A.I.D. projects and other donor projects. The committee was expected to monitor progress towards project objectives, coordinate inputs of donor organizations and ensure that assistance offered by the project did not replace or duplicate activities planned by other A.I.D. or other donor projects.

The Government of Swaziland (GOS) and USAID/Swaziland approved the project on August 23, 1985. The grant agreement provided for a five-year project with A.I.D. contributing \$5.7 million and the GOS about \$2.2 million, including costs borne on an "in-kind" basis. Through December 31, 1988, A.I.D. had expended about \$3.3 million of \$4.9 million obligated through that date. A technical assistance contractor, Management Sciences for Health (Management Sciences), provided five technical experts to work on project activities. About \$5.4 million (95 percent of A.I.D.'S total contribution) was budgeted for Management Sciences. The project was expected to be completed by December 31, 1990.

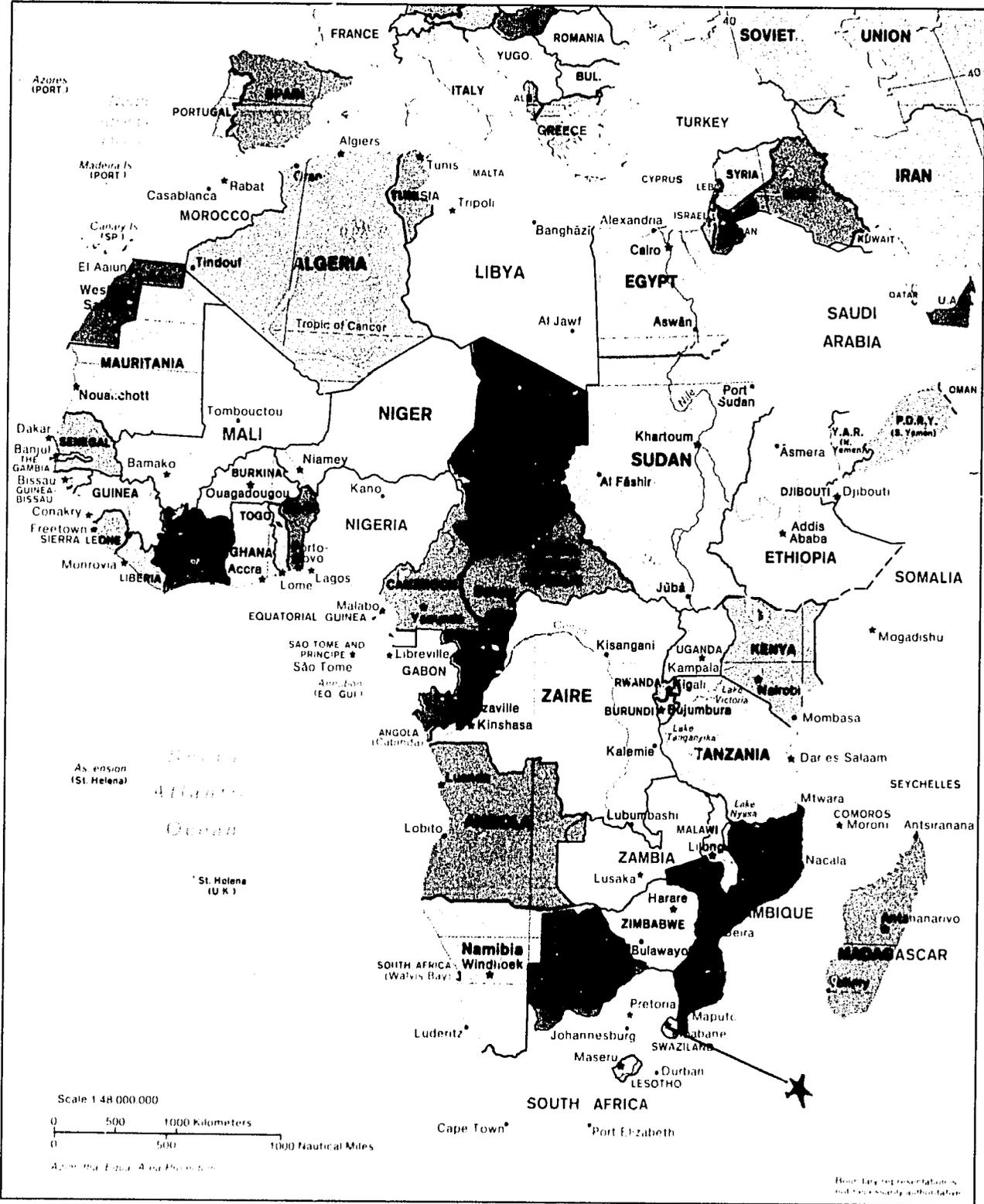
B. Audit Objectives and Scope

The Office of the Regional Inspector General for Audit, Nairobi (RIG/A/N) made a performance and economy and efficiency audit of the project.

The audit objectives were to determine whether the project was making satisfactory progress towards meeting its objectives, project resources were used efficiently, and the Government of Swaziland was contributing resources as agreed.

The audit was made at the USAID Mission in Mbabane, Swaziland and at 27 (of 82) randomly-selected health facilities throughout Swaziland. The audit began in November 1988 and was completed in January 1989. The audit staff reviewed project files and interviewed officials of USAID/Swaziland, the Government of Swaziland's Ministry of Health, the World Health Organization, the United Nations Children Fund, the United Nations Development Program, and the Family Life Association of Swaziland. The audit did not include a detailed evaluation of internal controls except as related to the audit findings. The audit covered expenditures of about \$3.3 million. The audit also included a review of the Government of Swaziland's contributions to the project. The audit was made in accordance with generally accepted government auditing standards.

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AUDIT OF
SWAZILAND PRIMARY HEALTH CARE PROJECT

PART II - RESULTS OF AUDIT

The Swaziland Primary Health Care Project was not making adequate progress towards meeting its objectives, as project objectives were too ambitious to be met by a single project. In addition, project resources were inefficiently used in that only 31 percent of project activities planned to be completed by December 31, 1988 had been completed, while 97 percent of project funds planned for those activities had been spent. Further, the Government of Swaziland had not contributed resources to the project as agreed.

Even though project progress was unsatisfactory, the project had successfully initiated many activities. For example, significant training of nurses and health administrators had been accomplished through seminars, workshops, study tours and by placing participants in training institutions in the United States and other countries. The project had also helped to decentralize of health administration and improve clinic management.

The audit disclosed that three areas needed improvement. First, project design included overly ambitious Government of Swaziland targets for improvement in primary health care, which were neither specific nor measurable, and the design was based on some unrealistic assumptions. Second, project management officials did not adequately monitor or take sufficient action to correct design and implementation problems. Third, the Government of Swaziland had not contributed resources to the project as agreed.

To correct the problems, this report recommends that USAID/Swaziland officials redesign the project to include realistic goals and assumptions, include objectively verifiable indicators, improve monitoring and implementation, and require the Government of Swaziland to make contributions as required by the Grant Agreement, or amend the agreement.



Mothers attending clinic at Mbabane Health Center, Swaziland where growth monitoring, immunizations, post-natal and oral rehydration therapy training was offered.

A. Findings and Recommendations

1. The Project Needed To Be Redesigned

A.I.D. Handbook 3 required that project design include realistic and measurable goals. However, some project goals were unrealistic, or were not measurable. This happened because the Government of Swaziland insisted that national health targets be adopted as project goals. As a result, little progress had been made toward the project's objectives.

Recommendation No. 1

We recommend that the Director, USAID/Swaziland redesign the project to include:

- a. realistic targets;
- b. methodology for measuring accomplishments; for example, by evaluating technical contractor's workplan activities against milestones;
- c. a reduction in project activities and outputs in order to better focus the project on achievable objectives; and,
- d. a prioritization of project activities agreed to by Mission, Ministry of Health, and technical contractor officials.

Discussion

A.I.D. Handbook 3 required that project purposes be clearly stated and be achievable during the planned life of the project. The Handbook also required that project plans contain definite baseline data and progress indicators that could measure progress from the baseline conditions to the planned targets.

The Primary Health Care project was improperly designed in regard to project targets and measurement of project accomplishments as follows:

Project Targets - The project's design included Government of Swaziland national primary health care targets that were overly ambitious and not achievable within the five-year life of the project. Such targets included providing pre-natal care to 90 percent of pregnant mothers, increasing to 70 percent the

number of attended births, immunizing fully 70 percent of all children under five years of age, providing post-partum education to 90 percent of mothers, performing growth monitoring for 90 percent of all children under five years and providing oral rehydration therapy to 90 percent of all children under five years of age.

To help achieve the targets, the project incorporated a broad range of activities, including training to health providers, solving communication and transport problems, providing laboratory services and health education messages, improving clinic management, and providing systems support.

During project implementation it was realized that it was not possible to meet project targets as they were not realistic. Almost all technical team members, GOS Ministry of Health officials and USAID/Swaziland officials interviewed said that project targets were too difficult for a single project to achieve.

Measurement of Project Accomplishments - The audit found that project officials had no methodology for measuring progress towards achieving the project targets or objectively assessing the contractor's performance. The Mission consistently sent project implementation reports that indicated percentages completed. However, these completion percentages could not be verified because measurement of progress was not quantifiable.

The Mission had never evaluated in detail the status of the activities included in the workplan, even though the workplan included activity milestones. As of December 31, 1988, the contractor had expended about \$3.3 million (61 percent) of the total contract amount of \$5.4 million. The Mission, however, could not objectively determine what the contractor had accomplished with the funds expended.

Compounding the problem concerning measurement of project accomplishments was the fact that other projects and donors provided similar services to project participants and addressed the same problems as this project. Thus, overall health improvements could not be related directly to the project activities. The Mission therefore needed to set up a method for measuring contractor's accomplishments by comparing planned activities with the contractor's workplan milestones.

The cause of the project's poor design was difficult to determine. However, some officials told us that one reason for some problems was the Government of Swaziland insistence that national health targets be adopted as project targets. The Mission also allowed such national targets to be used as the project's targets.

Design deficiencies created several problems for the project, and resulted in inefficient use of some project funds. Confusion created by the lack of realistic project targets resulted in disjointed project implementation, with good progress in some areas and little or no progress in other areas. Subsequently, it was decided that some activities included in an initial workplan would be deleted. Funds already expended on such activities were, therefore, inefficiently used. Overall, the audit showed that only 31 percent of planned project activities had been completed as scheduled at December 31, 1988, even though 97 percent of funds for those activities had been expended at this date.

Management Comments

USAID/Swaziland agreed with the audit recommendation. USAID/Swaziland stated that the project had been redesigned and an amended agreement signed between the Mission and the Government of Swaziland had been finalized. Management stated that the project as redesigned included more realistic end-of-project status indicators, methodology for measuring accomplishments, and fewer project activities. In addition, management stated that various parties had agreed on project priorities. Based on the above actions, USAID/Swaziland requested that the recommendation be closed.

Office of Inspector General Comments

Management's comments were carefully considered and certain appropriate changes suggested by management were made to the audit report. Management's comments were responsive to the recommendation to redesign the project. USAID/Swaziland stated that it had completed a redesign of the project that incorporated the actions specifically included in Recommendation No. 1. Accordingly, this recommendation is considered resolved and can be closed upon receipt by this office of the following: a signed amendment of the Project Agreement, the Project Paper Supplement used in the project redesign, and documents supporting how accomplishments will be measured. This office also requires evidence that project activities and outputs were reduced, and documentation on project priorities that have been agreed upon by USAID/Swaziland, the Government of Swaziland's Ministry of Health and the technical contractor's officials.

2. Project Implementation Needed Improvement

A.I.D. was required to monitor results of development assistance and take appropriate actions on the basis of the monitoring to ensure that public funds were used as efficiently as possible. USAID/Swaziland, however, did not take timely action to correct known problems in project design, financial reporting and project management. This happened because USAID/Swaziland officials relied on a formal project evaluation to make recommendations to correct these problems. As a result, project implementation was behind schedule and resources were used inefficiently.

Recommendation No. 2

We recommend that the Director, USAID/Swaziland:

- a. in cooperation with the technical assistance contractor and Government of Swaziland officials design, develop and implement a project financial management reporting system to accommodate the needs of responsible implementing and monitoring officials;
- b. modify the workplan to reflect appropriate activities resulting from project redesign;
- c. institute quarterly meetings with the contractor devoted to tracking the contractor's progress toward completing workplan activities; and
- d. make arrangements for relieving the contractor's chief-of-party of some time-consuming administrative responsibilities.

Discussion

A.I.D. policy was to promote cost-effective health programs through project design, management and implementation. Such policy was consistent with legislation and regulations requiring A.I.D. to monitor and evaluate the use and results of development assistance to ensure that public funds were used effectively. The Foreign Assistance Act made this clear by requiring A.I.D. to follow accepted management practices in using information systems and analytical techniques to support decision-making. Systems selected were required to provide information needed to evaluate program performance, budgetary requests, and program priorities. Further, Office of Management and Budget Circular 117 required that A.I.D. monitor program effectiveness and efficiency on a continuing basis. Such requirements were to facilitate problem identification and timely management decisions to ensure successful accomplishment of objectives in a cost-effective manner.

The Primary Health Care Project experienced implementation problems from its inception. The Government of Swaziland was unable to provide sufficient personnel to fill counterpart positions, and the staff that was assigned often lacked the time necessary to devote to this project. Throughout the project period, there was disagreement on project goals and priorities, an inadequate financial reporting system, and inadequate performance indicators for measuring progress toward achieving goals. In addition, the contractor's chief-of-party was spending too much time on administrative duties.

USAID/Swaziland officials took action to correct some of the problems. For example, a stop-work order was implemented for the period during April to August 1986 until the Ministry of Health filled several positions. The Mission also supported a change in the chief-of-party by the technical contractor to try and solve related problems, while a revised workplan was completed in March 1988 in an attempt to get agreement on project goals and priorities. In addition, at the time of this audit, USAID/Swaziland in conjunction with the contractor, was developing a new financial reporting system. While recognizing these attempted corrective actions, the audit concluded, however, that the actions did not effectively correct the problems.

According to Mission officials and other donor agency officials, Swaziland, like most developing countries, suffered a shortage of trained and qualified officials to fill Ministry of Health positions. Throughout project implementation positions were unfilled or filled with people incapable of handling the responsibilities. One Swaziland official even refused to work with his counterpart from the technical assistance team. Qualified and capable Ministry of Health officials were often overburdened with responsibilities for numerous donor projects and other commitments. Mission and contractor officials stated they were also not always able to get timely access to decision-makers, which resulted in implementation delays. While the Mission dealt forcefully with personnel problems in the initial stop-work order, problems were not forcefully dealt with when they recurred.

Several responsible Mission, Government of Swaziland, and contractor officials stated that they had recognized that project design was too broad, contained flawed assumptions and unrealistic end-of-project indicators. Yet no action was taken to redesign the project. On the contrary, even though the project was late in getting started, an initial workplan was developed that compressed project activities into an even shorter time than originally planned.

Consequently, priorities throughout the project continued to differ among MOH, USAID/Swaziland and technical assistance team officials. For example, the MOH wanted the project to provide additional vehicles and radio equipment. The Mission, however, had cut funds for those items and allocated them to other project activities.

Some Ministry officials felt that activities like immunizations, family planning and growth monitoring were being adequately covered by other donors, such as the United Nations Children's Fund and the World Health Organization. Interviews with MOH officials and United Nations Development Program officials showed that the MOH had approved a project which duplicated activities such as family planning and health education, offered by the Primary Health Care Project. MOH officials believed the activities should receive low priority under the Primary Health Care Project, while Mission officials believed they were of high priority. Similarly, technical team members stated activities like development of a five-year plan and pre-service education were no longer valid project priorities, while Mission officials still insisted that they were.

In addition, the Ministry of Health, technical assistance team members and USAID/Swaziland officials had inadequate financial information for monitoring and managing project activities. The technical assistance contractor was funded under a letter of credit on a reimbursable basis. This arrangement did not provide up-to-date financial information. For example, expenditure vouchers were received by the Mission six to eight months after expenditures were made. The vouchers did not include line item analysis or supporting documentation. Consequently, Mission officials did not know how much had been expended by the technical assistance contractor for project activities. This was an agency-wide problem and not unique to the project, however, the Mission did not begin designing alternative financial reporting methods until September 1988, and was unable to effectively monitor the financial status of the project. As of June 19, 1989, a new reporting system had not been finalized.

Concerning project administration, the chief-of-party had inadequate time to perform all the team's administrative duties and his role relative to advising the MOH on planning and budgeting. The chief-of-party spent about 40 to 50 percent of his time on administrative duties. In addition, he had full-time technical responsibility for implementing planning and budgeting activities within the MOH. Thus, project

implementation of planning and budgeting was seriously behind schedule. This problem had been recognized by Mission officials early in the project, but they had not taken effective corrective action.

These problems occurred because Mission officials relied too much on the evaluation process to correct them. Management believed the evaluation would make recommendations to correct the problems and decided to await that exercise. In so doing, management did not fulfill its responsibility to assure problems areas were addressed and corrected.

Because USAID/Swaziland did not take effective action to correct known problems, the Primary Health Care Project was seriously behind schedule. As of December 31, 1988, only 31 percent of the project's activities scheduled to be completed by that date had been completed, while 97 percent of the funds available had been expended. Thus, remaining funds were insufficient to complete all the activities remaining to be done. Since so little had been accomplished with the project's funds, we concluded that the funds had been used inefficiently.

Management Comments

USAID/Swaziland agreed with the audit recommendation, and stated that it had taken appropriate action to implement it. The Mission stated that a financial management reporting system had been installed and was operational. In addition, management said that the workplan was modified and procedures had been established for meeting the contractor on a quarterly basis to discuss project implementation. Finally, management said that the contractor's chief-of-party had been relieved of some administrative responsibilities.

Office of Inspector General Comments

The actions cited by the Mission were responsive to the audit recommendation, and the recommendation is therefore considered resolved. The recommendation can be closed upon receipt by this office of documentation showing that a project financial reporting system had been installed, a modified workplan introduced, quarterly meetings with the contractor held and the chief-of-party position description showing that the administrative duties have been reduced.

3. The Government of Swaziland Needed To Contribute Additional Resources

The Government of Swaziland agreed to contribute not less than \$2,245,000 to the project, including \$1,745,000 through Ministry of Health budgetary resources and \$500,000 from extra-budgetary sources. However, the Government did not contribute resources as agreed. This occurred because the Government did not follow through on its commitment to generate extra-budgetary resources and USAID/Swaziland officials did not effectively enforce the project agreement. As a result, the project was potentially deprived of resources totalling \$634,500, and the Government may not be meeting the statutory requirement to contribute 25 percent of total project funds.

Recommendation No. 3

We recommend that the Director, USAID/Swaziland:

- a. require the Government of Swaziland to make contributions required by the Project Agreement or amend the Agreement;
- b. design a mechanism for periodically verifying the Government of Swaziland's contribution required under the project grant agreement, and ensure that the Government of Swaziland contributes at least 25 percent of total project funds, and
- c. require that the Government of Swaziland pursues alternative methods for increasing the extra-budgetary funds spent on health services.

Discussion

The Project Agreement between USAID/Swaziland and the Government of Swaziland required the Government to contribute not less than \$2,245,000 to the project. Of this, \$1,745,000 was to be provided through budgetary resources and \$500,000 was to be raised through extra-budgetary resources.

The audit disclosed that the Government of Swaziland did not make required contributions totalling \$634,500. This included the \$500,000 to be raised through extra-budgetary resources,

which the Government had not even made an attempt to raise. In addition, contractor support and international travel costs totalling \$134,500, which should have been paid by the Government of Swaziland, had been paid by USAID/Swaziland instead.

This problem occurred because USAID/Swaziland officials, though aware of the problems, had not confronted the Government about its non-compliance with the project agreement. No effort had been made by the Mission to request the GOS to examine ways of raising \$500,000 in extra-budgetary resources. USAID/Swaziland officials had also not asked the Government to contribute to international travel costs paid out of the project funds. Thus, \$12,930 of project funds were inappropriately used to fund international travel costs for trainees.

Concerning the other contributions, Mission officials believed that the Government was not expected to contribute all resources as agreed. The Mission felt that, as long as the Government's contribution met the requirement to contribute at least 25 percent of the total project costs, it was unnecessary to require the Government to contribute all resources as agreed in the project agreement. However, we believe that the Government should be required to comply with the Project Agreement or the Agreement should be amended.

Consequently, the project will lose the impact on health care that could be obtained with \$634,500, such as additional immunizations, attended deliveries and training. In addition, the Legal Counsel to the A.I.D. Inspector General concluded that the GOS may also not meet the required statutory contribution of 25 percent of project costs. According to the Agreement, statutory contributions by the GOS needed to be at least \$1,986,250 (25 percent of total project cost of \$7,945,000). However, without the contribution of \$634,500, the Government's contribution by the project completion date would be only \$1,610,500 (20.3 percent), thereby questioning whether the statutory requirement would be met.

Management Comments

The Mission disagreed with the recommendation. The Mission stated that the finding was negated by a written legal opinion, stating that the GOS was not actually required to contribute \$500,000 of extra-budgetary resources, and that the additional \$134,500 was not lost to the project.

The Mission argued that costs incurred by the project technical team were legally appropriate, and within terms of the contract. In addition, the Mission stated that the Government of Swaziland was on target to meet and exceed the 25 percent statutory contribution and that the Mission does not have a procedure for tracking Ministry of Health budgetary contributions.

Office Of Inspector General Comments

We believe the recommendation should be implemented as shown. The legal opinion stated that though the Government of Swaziland may have met the statutory requirement to contribute 25 percent of total project funds, there was a contractual obligation to contribute somewhat more than 25 percent of total project costs. The agreement between the GOS and the A.I.D. required contributions of not less than \$2,245,000. Therefore, a contribution of less than this amount would result in a breach of contract, even if statutory requirements were met.

RIG/A/N believed that the Government of Swaziland had a contractual obligation to meet the terms of the agreement. There was no reason to include these costs in the project agreement if the GOS was not expected to contribute as agreed. Further, as stated above, the GOS may not actually meet the statutory requirement to contribute 25 percent of total project costs. As such, the Project Agreement should be complied with or amended.

The Mission needs to set up a system to track GOS contributions to the project. Without such a system, the Mission will not be in a position to determine whether statutory or contractual obligations under the agreement have been met.

B. Compliance and Internal Control

Compliance

The Government of Swaziland was not making the agreed contributions to the project as discussed in Finding No. 3. Nothing else came to our attention that would indicate untested items did not conform to applicable laws, regulations and agreements. The review of compliance was limited to the reported audit findings.

Internal Control

Review of internal controls was also limited to the audit findings. The audit found that the Mission did not have adequate oversight over financial expenditures of the project. In addition, the Mission did not have an effective means of measuring progress towards project goals.

AUDIT OF
SWAZILAND PRIMARY HEALTH CARE PROJECT

PART III - APPENDICES

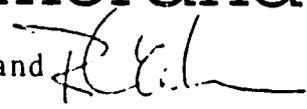
memorandum



DATE: August 14, 1989
REPLY TO: Richard P. Solloway, Controller, USAID/Swaziland
ATTN OF:
SUBJECT: Comments on Draft Audit Report of Swaziland's Primary Health
Care Project No. 645-0220
TO: Richard C. Thabet, RIG/A/Nairobi

Enclosed herewith are our comments on the Draft Audit Report.

memorandum



DATE: August 14, 1989

REPLY TO
ATTN OF: Roger D. Carlson, Director, USAID/Swaziland

SUBJECT: Comments on Draft Audit Report of Swaziland's Primary Health Care Project No. 645-0220

TO: Richard C. Thabet, RIG/A/Nairobi

The Mission found that the draft audit report included many incorrect statements, erroneous findings and findings based upon assumptions rather than fact. As it is, we believe the audit distorts reality. I must recommend to you that it undergo substantial revision before being issued.

Dick, this project was the first one on which I personally intervened in October 1987 (one month after arrival at post) in order to better focus the work plan. Because of our careful attention to correcting the project's flaws over the years, we are confident that we now have a good design and implementation plan to carry us to the end of the project.

While it is true that this project had initial design flaws which contributed to some misunderstandings between the Ministry of Health, contractor staff and the USAID Mission; these problems were not ignored and were resolved some time ago. Also, some changes in the composition of the technical assistance team and their assignments were required along the way. The Government was less diligent than we would have hoped in pursuing outside extra budgetary financing-- a situation not uncommon in the developing world. Some travel for short term training - in a few instances - was charged to the project, and not to the GOS, because funds had not been provided and the training was deemed essential. It is true that we should have done training waivers. If the auditors had confined their comments to these agreed upon facts and recognized our close attention to the problem up through and including last year's evaluation and redesign, it could have been a useful audit. Following are our comments on the revised draft audit report dated July 1989.

I. Executive Summary

A. Third Paragraph

A covenant in the project agreement required the Government of Swaziland (GOS) to investigate alternative methods of financing health services, but the project agreement did not require the Government to contribute \$500,000 resulting from investigations of alternate methods of financing. The 25% contribution was met without this input. An opinion from the legal advisor supporting this position was provided the auditors.

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B. Fourth Paragraph

The effectiveness of training, seminars, and workshops had been evaluated and was known to have a very positive impact. Stating that the activities had not been evaluated and the impact was unknown is not correct.

C. Fifth Paragraph

This paragraph is completely misleading. To say that there were design flaws which caused the project to be "beset by delays" is simply untrue. It is true that the project goal and the end of project indicators were broadly stated to be reflective of the overall Ministry of Health goals for Primary Health Care. As a result, we revised the project, and targeted it on more specific objectives. Project work has been advancing although not as rapidly as we had hoped initially. In 1987, the work plan was revised so that realistic targets could be set for the technicians who were overworked and pulled in many directions. In 1988, the project was evaluated, further refined and targeted on specific objectives which are attainable. In April 1986, at the very beginning of the project, a Stop Work Order was issued by the Mission because the Government of Swaziland had not met an important condition precedent to fill key positions within the Ministry. The Mission received evidence that those positions were filled in July 1986 and the Stop Work Order was then lifted. Issuing the Stop Work Order showed that the Mission was responsible enough to protect the United States Government investment in this project by insisting that the Government of Swaziland (GOS) fulfill its contractual responsibilities in a timely manner. In my view, the Mission should be applauded for taking such a step. I have no idea what the auditor is talking about when mention is made of \$3 million of project funds standing idle for a year. There was no idleness in this project, and no funds sitting unutilized.

D. Sixth Paragraph

The Project has been redesigned and that redesign was completed months before we received the draft audit. The auditors knew that the redesign was underway when they were doing their audit. Project activities and outputs have been reduced, the project is much more targeted, and for some time agreement has been reached on its scope by the Ministry of Health, the Mission and the contractor.

E. Seventh Paragraph

Contrary to the assertions in this paragraph, USAID/Swaziland officials took prompt action repeatedly to correct known problems in project design and performance. Examples are: (a) Stop Work Order issued in April 1986, (b) request for the President of the contracting firm to visit Swaziland in Spring of 1987 to correct personnel problems on the contract staff which resulted in the departure of one contractor technician, (c) the review conducted with the Ministry of Health in the Fall of 1987 starting with consultations between the Mission Director, the contractor and senior members of the Ministry of Health to come up with a revised more realistic work plan. (This was accomplished by December 1987 and put into operation in early 1988.), (d) project evaluation in October 1988 which led to a complete project revision, and an amendment targeting the project on specific goals and purposes. The revised goals can be achieved with the remaining resources, and there are currently no significant differences on project priorities between Ministry of Health, USAID/Swaziland officials and the contractor.

F. Ninth Paragraph

The project was not deprived of resources totalling \$634,500. The \$500,000 which the GOS was expected to raise from extra-budgetary resources was included in the project as a covenant. The GOS was to make its best efforts to identify extra-budgetary resources and address the matter of financing from other resources. This issue was a difficult one, and we continue today to work with the GOS on the matter. The remaining \$134,500 was not lost to the project but was provided out of dollar funds rather than from the local currency contributions. As a matter of fact, a contracting officer's determination was provided the auditors refuting and negating this statement.

G. Tenth Paragraph

As stated earlier, the GOS is required to pursue alternative methods of financing health care, but is not required to make a local currency contribution equivalent to \$500,000 from that source.

II. Part I - Introduction

A. Background

Second Paragraph. It was not the project's intention to integrate various donor resources, since that is the GOS' function and responsibility. To state otherwise is a misstatement.

B. Audit Objectives and Scope

Second Paragraph. The 27 health facilities were not randomly selected.

III. Part II - Results of Audit

A. Introduction

1. First Paragraph. Per an opinion from the regional legal advisor, the project agreement did not require the GOS to contribute \$500,000 from alternative methods of financing health services.

2. Second Paragraph. Various activities were evaluated, some on a continuing basis and others periodically, and the impact was well known and mostly positive. Consequently, the project continued to support those activities which were successful.

3. Third Paragraph. As stated earlier, the project design did include overly ambitious Primary Health Care targets which were revised during the first couple of years of the project through continuous inter-action between the Mission, the contractor and the Ministry of Health. A more targeted work plan was developed in 1987 and following an evaluation in 1988, the project was completely redesigned. Project management did take timely and specific action to correct design and implementation plans. The Mission acknowledges that the GOS has not as yet undertaken significant alternate financing methods to fund PHC.

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IV. Findings and Recommendations

A. The Project Needs to Be Redesigned

1. The following sentence is incorrectly stated, "However, the goals of the Swaziland Primary Health Care Project were unrealistic and some assumptions were invalid." It should be changed to read, "The goals of the Swaziland Primary Health Care Project also included national targets and certain project assumptions proved to be unrealistic and overly optimistic." We do not believe this project was beset by delays and confusions. Prompt action was taken by both the Government and USAID to correct design problems on a regular periodic basis from 1986 through 1989. There were not \$3 million of project funds sitting idle for a year. This assertion is unsubstantiated by the auditor.

2. Exception is taken to the statement, "In addition, Government of Swaziland pressure may have contributed to unrealistic goals." We know of nothing that would support such a statement.

3. The following sentence is very misleading and is totally out of context. "As a result, about \$3.0 million of project funds were idle for a year and the effectiveness of expenditures totalling \$3.3 million is highly questionable." Actually, due to mission diligence a stop work order was issued six months into the project, so project funds were not spent until the necessary GOS manpower resources were in place.

4. Recommendation No. 1.

On the basis of the September/October 1988 mid-project evaluation and to a lesser extent the audit, the project was redesigned and an amended project agreement was signed on May 16, 1989. The amended project agreement included more realistic EOPS and outputs, a methodology for measuring accomplishments, and fewer project activities. Furthermore, all interested parties have agreed to the priority of project activities as delineated in the amended project paper.

Consequently, we recommend that Recommendation No. 1 be considered closed.

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a. Discussion.

(1) Second Paragraph. The Mission takes exception to the comment that the project was improperly designed. However, we do agree that it was designed with what eventually became overly ambitious targets.

b. Project Design Assumptions.

(1) Second Paragraph. As stated in the Project Paper, Project Agreement, Request for Proposals (from prospective contractors) and other documents, it has been repeatedly explained to the auditors by all interested parties in the project that it was never intended that this project would coordinate the donor's inputs to Swaziland's primary health care. Consequently, the sentence, "Another invalid assumption was that this project would effectively coordinate with several other donors providing input to Swaziland Primary Health care problems" is a misstatement of fact.

It is strongly recommended that the entire second paragraph be deleted from the audit report, since it is inaccurate.

(2) Third paragraph. The project expected the Ministry of Health to investigate and experiment with ways to finance health services, but the project agreement never assumed the GOS would raise \$500,000 from extra-budgetary sources. As stated earlier, a legal opinion was made that is contrary to this incorrect comment. The paragraph should be deleted.

(3) Fifth paragraph. The linking of completed planned project activities with funds expended is not valid. This is because a substantial portion of the cited activities were at least 50 percent completed, and the auditors' analysis did not take into account the relative priority and complexity of the completed activities versus those only partially completed. Also, the revised work plan, which contained more realistic project activities than the original workplan, would have revealed a much higher percentage level of project achievement than 31 percent.

Again, there is no empirical evidence to support the sentence, ". . . the efficient and economic use of the \$3.7 million expended was highly questionable." Actually, the evidence is to the contrary.

B. Project Implementation Needed Improvement.

Again, this entire paragraph is totally misleading and misstates the facts. From the very start the Mission was extremely diligent in correcting the problems associated with this project--beginning with the Stop Work Order through the reassessment of personnel on the project team to revision of the work plan, evaluation and redesign-- a continuous process going on over the first few years of the project to bring it into line. This process was discussed and reviewed extensively with the auditors as mentioned above.

1. Recommendation No. 2.

a. The project agreement was amended on May 16, 1989. At that time, and in subsequent meetings with the Contractor's Chief of Party, appropriate action was taken to correct each of the parts under Recommendation No. 2.

b. Recommendation 2a. A project financial management reporting system was installed several months prior to the audit. Now that it has been operational for several months, it has been found satisfactory to meet our needs.

c. Recommendation 2b. Quantifiable performance indicators for measuring and evaluating the contractor's performance are being finalized.

d. Recommendation 2c. The project was redesigned, the agreement amended, and a modified workplan developed.

e. Recommendation 2d. Procedures have been established to have quarterly meetings with the contractor team.

f. Recommendation 2e. The Chief of Party had some of his administrative duties transferred to the local employees, thus lightening his load. Also, the Technical Coordinator responsibilities were transferred from the COP to the new MCH Physician.

Consequently, because of the above actions, we recommend that Recommendation No. 2 a-e be closed in its entirety.

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2. Discussion

a. Second paragraph. The statement that there was persistent disagreement on project goals and priorities is absolutely misleading. There were some differences on priorities but these were corrected in the 1988 workplan and substantial agreement existed between senior USAID and MOH officials in refocusing the project and in the amendment of the project. Consequently, the word persistent should be deleted. Furthermore, it was not in the original draft audit report.

b. Third Paragraph. The audit report recognizes some but not all of the steps that were taken to better focus this project. Having recognized these actions, the Mission does not understand the last sentence of the paragraph which calls USAID/Swaziland's response "inadequate, ineffectual". There is no evidence anywhere in the audit report to document a charge such as this.

c. Fourth paragraph. This paragraph did not reflect the complete picture regarding MOH officials. Consequently, after the sentence, "Throughout implementation... handling the responsibilities." please insert the following sentence, "However, significant improvements were made in the past nine months due to vacant positions being filled with the replacement of several officials in key positions." Also, at the end of the sentence, "In one case, a Swaziland official refused to work with his counterpart from the technical assistance team." please add "and the Ministry terminated the official." This way, the sentence tells the complete story.

d. Sixth paragraph. The complete facts have not been presented. Consequently, please add at the end of the sentence, "Just the same, substantial progress has been made in addressing the issue of project priorities. This was reflected in the 1988 workplan and in the amended project agreement. While some disagreement did exist on priorities among the many officials involved in the project, it is recognized that this will probably be found in any situation. However, the amended project agreement represents positive evidence that there is substantial agreement between mission and senior MOH officials on refocusing the project."

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e. Seventh paragraph. After the sentence, "For example, expenditure vouchers were received by the Mission six to eight months after expenditures were made." please insert, "Such time delays are related to AID internal procedures and do not reflect on the mission nor the contractor." The last sentence, "As of the draft report, a new reporting system was still not finalized." should read, "As of the audit report, a new reporting system was in place and operational."

f. Eighth paragraph. (1) The sentence, "The mission had not however established quantifiable performance indicators to measure or evaluate the contractor performance." does not portray the complete picture, so please insert the following sentence. "The mission monitored the team's performance against the workplan through periodic meetings and monthly and quarterly reports." (2) The Mission takes exception to and strongly questions the validity of the sentence, "There was no evidence that the mission ever evaluated in detail the status of the activities included in the workplan, even though the workplan included activity milestones." Evidence that evaluation occurred was provided to the auditors, as indicated. In fact, a comprehensive evaluation was completed prior to the audit, and was the basis for a major project revision on-going at the time the audit was undertaken.

g. Tenth paragraph. The auditors again charge that problems identified earlier in the project went uncorrected for two-three years. This statement is untrue. The Mission undertook several steps between 1986 and 1989 to refine and better target this project beginning with the Stop Work Order through the series of workplan revisions, changes in technical team members, evaluation, redesign and project amendment. This process was layed out in its entirety to the auditors at the time of the audit.

V. The Government of Swaziland Needs to Contribute Additional Resources

Based upon information provided to the auditors during the audit, and the subsequent legal opinion and the contract officer's determination after the first draft audit report, the Mission takes exception to the findings and recommendations as they read. In light of the information provided the auditors, we do not understand how the audit report can include findings which were refuted and negated by a written legal opinion and a written contract officer's determination. Since the GOS has made the required contributions, and since USAID/Swaziland did monitor and reinforce project agreement provisions as per the legal and contract officers' findings, the last sentence of this paragraph which begins "As a result ... totalling \$634,500. " should be deleted. In addition, the last of the previous sentence beginning with "...and USAID/Swaziland officials ... enforced project agreement provisions." should also be deleted.

A. Recommendation No. 3

1. Recommendation 3a. As documented through the contracting officer's budget workpapers, the technical assistance team's cost proposal, PILs and PIOs, and the contract officer's determination; costs incurred by the project technical assistance team were legal, appropriate, and within the terms of their contract. Consequently, it is recommended that this recommendation be deleted in its entirety.
2. Recommendation 3b. In workpapers provided by the MOH Controller to the audit team and other documentation provided them, it was clear that the GOS is currently on target to meet and even exceed their 25% contribution. Furthermore, the Mission does have a procedure for tracking the MOH budgetary contributions. Consequently, it is recommended that this recommendation be deleted in its entirety.
3. Recommendation 3c. The legal opinion stated that the Government of Swaziland is meeting its 25% legislated contribution and that the project covenant did not require them to contribute the local currency equivalent of \$500,000. The covenant in the amended project agreement has no reference to an amount to be raised by the MOH when investigating and experimenting with ways to finance health services. Consequently, this recommendation should read, "The Mission should work with the MOH in investigating and experimenting with ways to finance health services."

B. Discussion

This entire section concerning the alleged \$634,500 that was lost to the project is completely erroneous for reasons mentioned earlier in our comments. First of all, as explained in the legal opinion the \$500,000 from extra-budgetary resources was not a commitment of the GOS, although certainly they could have made better efforts to investigate and experiment with such financing. As with most developing countries, however, the issue of extra-budgetary financing, fee-for-service, or other mechanisms is controversial. We are continuing to work with the Government to convince them to try some of those mechanisms here in Swaziland. The revised project paper retains the covenant but eliminates the suggested amount of funding in order to eliminate confusion which seemed to have side tracked the auditors.

With respect to the balance, we have legal and contracting opinions which refute the auditors' case. The contract team incurred expenses which were authorized in their contract, and this was supported by workpapers and a contract officer's determination which were provided to the auditors. On almost every technical assistance project, some cost for office equipment, supplies, housing maintenance etc. is built into the project. It was the case with this project, and it was crystal clear in the terms of the contract. There was no ambiguity on this matter. International travel costs of \$12,930 for some short-term courses were paid for by the project. However, these were not budgeted for by the Ministry of Health and they were considered to be of significant priority. Consequently, we believed it would be in the best interests to fund such travel. Since myself, as Mission Director, and the Principal Secretary of the Ministry of Health are the authorized representatives to change elements of Annex I of the project agreement without formal amendment of the Agreement; by cosigning the PIO/Ps we agreed in writing that the GOS would not pay the international travel costs. Once signed, we no longer had any legal right to demand the GOS to pay the international travel costs. Furthermore, it must be remembered that Agency policy allows a Mission Director to waive this policy when it has been determined that the host government cannot pay such costs (HB 10, 16A1, C2,3).

In summary, these funds (\$634,500) were not lost to the project as suggested in the last paragraph of the discussion. The suggestion in the last paragraph of the discussion that the people will suffer unnecessary illnesses and shorter lives because those funds were not made available to the project is an insult and discredit to the serious work of Ministry of Health and American personnel attached to this project.

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VI. Compliance with Internal Control

The Mission takes exception to the statement, "The audit found that the Government of Swaziland was not making the agreed contributions to the project as discussed in Finding No. 3." Repeated documentation was provided the auditors that the GOS was meeting and is expected to exceed its required 25% contribution. Included in this documentation were workpapers from the MOH Controller and a legal opinion that the GOS/MOH was not required to contribute \$500,000 from extra-budgetary resources. Consequently, the statement should be deleted.

VII. Internal Control

The Mission takes exception with the statement, "The audit found that the Mission did not have adequate oversight over financial expenditures of the project." Procedures for reviewing and recording financial expenditures conformed with Agency policy. The audit report itself states, ". . . a previous A.I.D. Inspector General Audit acknowledged that this was an agency-wide problem and not unique to the project." Since this Agency problem has been previously reported, and Mission procedures conform with currency Agency policy; we recommend that the statement be deleted.

APPENDIX 2

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