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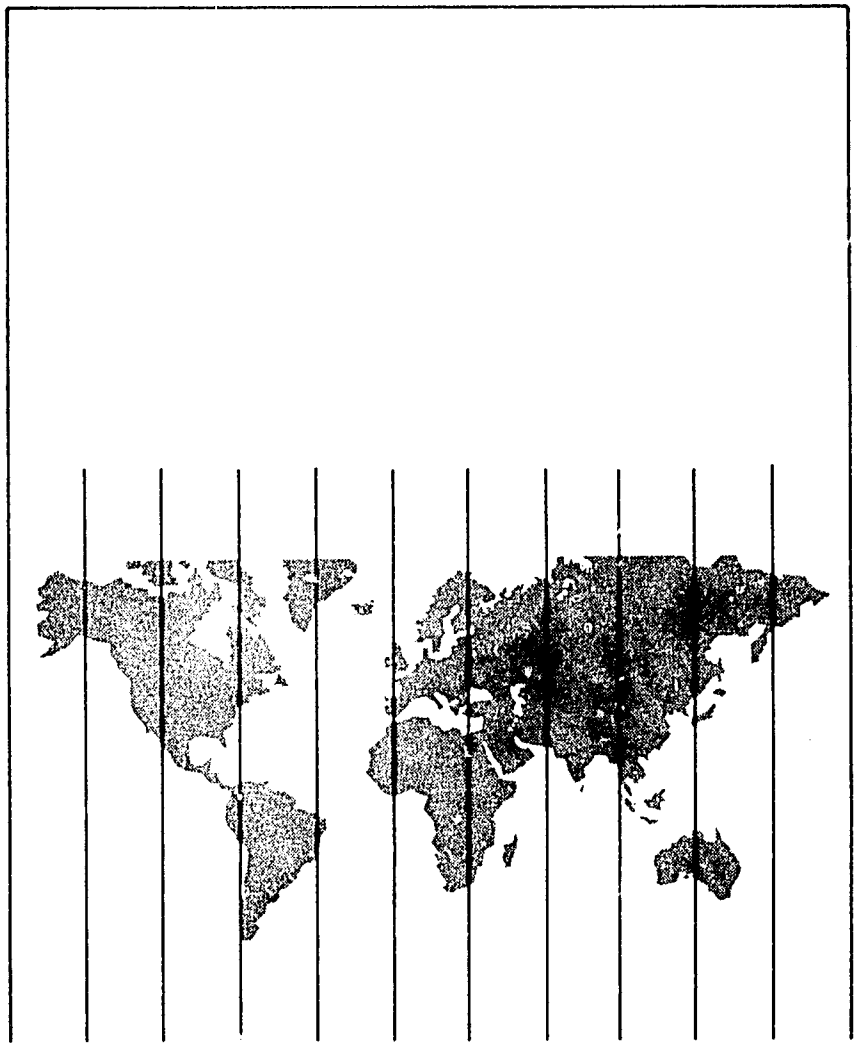
UNITED STATES
AGENCY FOR INTERNATIONAL DEVELOPMENT

THE INSPECTOR GENERAL



Office of

PROGRAMS AND SYSTEMS AUDITS

PD-AAZ-975

AN OVERVIEW OF THE CENTRALLY FUNDED CONTRACEPTIVE PROCUREMENT PROJECT NO. 936-3018

Audit Report No. 9-000-89-010

September 29, 1989

AGENCY FOR INTERNATIONAL DEVELOPMENT
WASHINGTON, D.C. 20523

ASSISTANT INSPECTOR GENERAL
FOR AUDIT

September 29, 1989

MEMORANDUM FOR SAA/S&T, Bradshaw Langmaid, Acting

FROM: AIG/A, James B. Durnil

SUBJECT: Audit Report No. 9-000-89-010, An Overview of the Centrally Funded Contraceptive Procurement Project No. 936-3018

The Inspector General's Office of Programs and Systems Audits has completed the subject review. A draft of the report was provided to your Bureau for review and comments. A copy of the Bureau's response is attached to the report as Appendix 1. Five copies of the report are attached for your action. Two hundred and fifty copies requested by the Directorate for Population are being transmitted separately.

The report contains 7 recommendations which are considered unresolved basically because of the uncertainty as to the Bureau's ability to implement recommendations which require the coordination and cooperation of Missions, cooperating agencies, and host governments over which it exercises limited control. If Recommendation Numbers 1, 2, 5, 6 and 7 prove difficult to accomplish without a specific delegation of authority, we suggest the Bureau request the Administrator to provide needed guidance. A separate memorandum was sent to the Administrator encouraging his support for the report recommendations. With respect to Recommendation Numbers 3 and 4, we are recommending that the Bureau prepare action memorandums for the Administrator to approve needed corrective actions.

Please provide to the Office of Programs and Systems Audits within 30 days the actions planned or taken to close the recommendations.

I appreciate the cooperation and courtesy extended to my staff by members of the Directorate for Population throughout the audit period.

PROCUREMENT

"INCREASED DEMANDS THREATEN A.I.D.'S ALREADY QUESTIONABLE ABILITY TO EFFICIENTLY DELIVER CONTRACEPTIVE COMMODITIES TO MOST OF THE WORLD"

EXECUTIVE SUMMARY

A.I.D. provides most of the world's donated contraceptive commodities including condoms, birth control pills, vaginal foaming tablets, and intrauterine devices. Currently costing about $60 million per year, this assistance is expected to rise dramatically. Fueled by greater awareness of family planning methods, the introduction of new technologies, and the widening problems of Acquired Immunodeficiency Syndrome (AIDS), this burgeoning demand poses the potential not only for requiring greater allocations of A.I.D. money, but also for exerting further pressures on already weak project administration.

The Contraceptive Procurement Project was initiated in 1981 as A.I.D.'s vehicle for centrally procuring commodities from U.S. suppliers. Between 1982 and 1988 about $244 million was spent on contraceptives, not including the many millions of dollars for related technical assistance. The project extends beyond buying and delivering products to, in effect, being the focal point of a complex logistics management system that spans public and private institutions in about 82 countries, involves 5 suppliers, 4 kinds of commodities, 2 other Federal agencies, numerous private cooperating agencies and technical assistance contractors, and A.I.D. Missions and representatives around the world. This enormous task is imposed on a Headquarters activity that employs three people to work full-time on commodity procurement

matters. Overlaying the day-to-day problems inherent in running a project of this magnitude is the absence of clear policy guidelines concerning the limits of A.I.D.'s intended assistance in terms of the financial resources it is willing to commit, the number of countries it can and should assist, and the diversity of products that should be provided.

The audit showed that A.I.D.'s Bureau for Science and Technology has taken many initiatives to strengthen its administrative controls. However, the absence of an operational implementation plan to direct activities on an integrated, coordinated basis with overseas Missions and recipient countries seriously diminishes the chances of achieving its objective of providing safe and effective products in an economical manner. Project funding arrangements involve hundreds of records annually and are unnecessarily cumbersome and inefficient. In addition, key aspects of the project are inadequately controlled leading to questionable estimates of requirements, untargeted technical assistance, sporadic ordering by Missions, unauthorized diversions of products, and inadequate overseas storage and distribution practices. The audit also showed that A.I.D. has inappropriately continued to rely upon the General Services Administration as its procurement agent and now expects to pay about $3.9 million per year for these services. The lack of a comprehensive quality assurance program makes it impossible to assign responsibility for product failures and to avoid losses that have exceeded $2 million. Finally, the project has continued technical assistance without specifically providing for eventual adoption by recipient countries of commodity management responsibilities.

Recommendations made to correct these problems emphasize the necessity for an implementation plan that effectively molds the project objectives and respective roles of the various participants. Recommendations also propose cutting back on the numbers of brands purchased, eliminating the General Services Administration as the

procurement agent, establishing a new method of funding procurements, instituting a more comprehensive quality assurance program, putting into place a system for recording and reporting commodity disposals and losses, and targeting technical assistance to areas of need with a view toward recipient countries eventually taking over certain commodity management responsibilities.

The Bureau for Science and Technology strongly concurred in the overall report findings and recommendations. It said the report underlines the programmatic importance of contraceptive procurement for A.I.D.-supported population programs and accurately describes the broad scope and administrative complexity of the procurement actions for which the Bureau is responsible. The Bureau said, however, that it lacked the basic authority to implement major report recommendations that involve budget decisions and procedural policies that are set elsewhere in A.I.D. It suggested that the report be directed to the A.I.D. Administrator to ensure that the recommendations and the authority to implement them receive appropriate attention.

The full text of the Bureau's comments are included as Appendix 1 to this report.

Office of the Inspector General

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PART I - INTRODUCTION

Background

The Contraceptive Procurement Project No. 936-3018 started in 1981 as a mechanism for consolidating A.I.D. purchases of contraceptive devices. About 82 countries are supported either directly through bilateral program arrangements or indirectly through private voluntary organizations in connection with 2 major A.I.D. programs--family planning and Acquired Immunodeficiency Syndrome (AIDS) prevention.

The Directorate for Population in the Bureau for Science and Technology (S&T/POP) is mainly responsible for the project. Within this Directorate, the Commodity and Program Support Division (CPSD) determines contraceptive requirements and procures, warehouses, and ships commodities for the A.I.D.-sponsored programs. About three people in this Division work full-time on commodity procurement matters.

Under two closely related and CPSD-managed projects, the Centers for Disease Control (CDC), and John Snow Incorporated (JSI) provide technical assistance and service to A.I.D. Headquarters and recipient countries and Missions to establish requirements, evaluate logistics management practices and procedures, and build an improved Management Information System.

The General Services Administration (GSA), under an interagency agreement, solicits bids for the purchase of contraceptives and contracts with appropriate suppliers. GSA also provides most of the

shipping services. The Planned Parenthood Federation of America, Inc./Family Planning International Assistance and John Snow Incorporated, provide stateside warehousing and some shipping services. Exhibit I describes the organizational arrangement and flow of commodities. Exhibits 2-4 profile the three related projects; Contraceptive Procurement, 936-3018, Population Program Development and Support, 932-0502, and Family Planning Logistics Management, 936-3038.

The Contraceptive Procurement Project stems from a September 1979 Agency-wide Task Force that examined A.I.D.'s procurement practices and procedures. Based on the Task Force's report, the Administrator in 1980 approved a central procurement project. A system of budgeting and funds control established responsibility for individual project budgets and inventory management at the Mission level.

Contraceptives are procured using funds allocated to the Bureau for Science and Technology as well as funds transferred from bilateral regional projects, Missions, and Regional Bureaus. Since 1979, A.I.D. has committed about $2.2 billion to support worldwide population program assistance efforts. About $334 million of this amount has been for contraceptive devices.

About 54 separate funding sources, 5 suppliers, 2 other U.S. government agencies, and 3 technical assistance contractors and their sub-contractors are involved in the project. Annual purchases cover 18 different kinds and 5 different colors of condoms, 6 different brands of oral pills, vaginal foaming tablets, and intrauterine devices (IUDs).

For example, A.I.D. purchased the following commodities totaling $41.5 million in fiscal year 1988.

ITEM	QUANTITY	COST	CONTRACTOR
	(In thousands)		
Condoms	637,506 pieces	$27,888	Ansell
Oral Pills	30,000 cycles	3,900	Wyeth
Oral Pills	13,188 cycles	3,376	Syntex
Vaginal Foaming Tablets	12,149 tablets	1,263	Ortho
Intrauterine Devices	4,991 units	5,070	Finishing Enterprises
Total		$41,497	

Commodities are provided directly to recipient countries' public and private institutions and through intermediaries such as International Planned Parenthood Federation/Western Hemisphere, Planned Parenthood Federation of America, Inc./Family Planning International Assistance (PPFA/FPIA), and The Pathfinder Fund.

Other donors include the United Nations' Population Fund, International Planned Parenthood Federation/London, the World Bank, Japan, Canada, Sweden, and West Germany. Firm data is not available, but according to S&T/POP officials A.I.D. historically has been by far the leading supplier providing about 85 percent of all contraceptive assistance to family planning programs in more than 80 countries.

This is the first comprehensive audit of the Contraceptive Procurement Project since an Office of Inspector General study in 1979 which addressed weaknesses in commodity management areas such as requirements accounting procedures, and shelf lives.

Project managers recognize the need for improvements in basic management functions as well as the need for establishment of realistic long-term objectives. Since about late 1986, a concerted effort has been made to resolve many of their underlying problems. New initiatives have included establishing automated systems for ordering, shipping, and financial accounting; reducing the number of commodities

offered; moving to multi-year ordering contracts; arranging for professional management of warehousing operations; instituting the beginning of a quality assurance program; and expanding its technical assistance.

Nevertheless, the project continues to be faced with increased demands for its services as a result of a greater worldwide awareness of family planning methods, the introduction of new products and techniques such as the Norplant insert, and the rapidly escalating problems with AIDS. Increasing amounts of financial resources and management attention are required straining already weak administrative procedures and limited Commodity and Program Support Division staff support.

The project is not governed by a comprehensive, integrated implementation plan. Thus, the parameters for planned A.I.D. assistance in terms of financial commitments, the number of countries it assists, and the products provided are not well defined. In essence, the level of A.I.D.'s assistance appears to be driven by the needs of the third world community with available dollars the only real restraint on support levels.

Audit Objectives and Scope

The Inspector General's Office of Programs and Systems Audits (IG/PSA) made a performance audit of the centrally funded Contraceptive Procurement Project No. 936-3018. The basic audit objective was to evaluate the effectiveness and efficiency with which the project was managed and implemented. The audit included project activities from October 1, 1985 through December 31, 1988, and was conducted between October 1988 and April 1989. The last audit of contraceptive commodity management was made in 1979. The prior audit findings were considered during this audit as appropriate.

The basic audit methodology was first to gain an understanding how the project operated from a Headquarters perspective and then to visit major user field locations to determine how the Headquarters and field activities interfaced.

To accomplish the audit objective, the audit team reviewed project files, records and other pertinent data at A.I.D./Washington, USAID Missions, U.S. Government Agencies, A.I.D. contractors, and host countries' public and private institutions. Government, A.I.D. contractors and private officials in the United States and host countries were interviewed. Field visits were made to three manufacturing firms in Alabama, New York and Pennsylvania, three A.I.D. technical assistance contractors in North Carolina, Georgia and Virginia, the General Services Administration (GSA), the Food and Drug Administration (FDA), the Department of Defense (DOD), and two warehouses in Maryland operated by FPIA and JSI. Eight overseas Missions in Mexico, Costa Rica, Brazil, Peru, Zimbabwe, Ghana, Pakistan, and Thailand were visited. In the countries visited, public and private sector central and regional warehouses and distribution centers, including AIDS prevention activities were inspected.

The audit covered about $112 million obligated from S&T/POP operating year budget, Bureaus' allotment transfers, and Missions' funded PIO/Cs for the procurement of contraceptive commodities. We tested about $35.6 million worth of commodity and shipping transactions for the period January 1, 1986 through December 31, 1988. The amount tested approximated one year of procurement disbursements.

The audit was made in accordance with generally accepted government auditing standards. The review of internal controls and compliance was limited to the matters discussed in this report. Government shipping arrangements were not examined in detail because of other ongoing work in this area.

AN OVERVIEW OF THE
CENTRALLY FUNDED CONTRACEPTIVE
PROCUREMENT PROJECT NO. 936-3018

PART II - RESULTS OF AUDIT

FINDINGS AND RECOMMENDATIONS

Overview

A.I.D. determined that it was most economical and efficient to centrally manage the funding, procurement and distribution of contraceptives for its worldwide programs. The funding process associated with this effort, however, is so cumbersome and complex that it is the first problem Mission Directors, A.I.D. representatives, controllers, and population officers want to correct. Widespread coordination and implementation problems exist at all levels of the logistics system, and range from determining how much product to buy to how to deliver that product to the intended user. The audit concluded that the project was not being implemented as efficiently as possible and that substantial improvements were needed for an effective delivery system.

Project problems have been known for a number of years and recently S&T/POP has begun action to correct some of the major deficiencies. There is, however, no comprehensive plan encompassing long-term and interim objectives which all players understand and are committed to. Thus, the corrective actions, although well-intentioned, have been reactive, uncoordinated, and without the full commitment and concerted efforts of A.I.D./Washington, Missions, contractors, cooperating agencies, and host country institutions (public and private) involved with managing the program. The audit disclosed the need for (1) an organizational implementation plan to guide the project in a coordinated

and efficient fashion; (2) better controls over the logistics system; (3) A.I.D. to do its own procurement; (4) an improved funding methodology; (5) a viable quality assurance program; (6) a system to record and report disposals and losses; and (7) a plan for host governments to take over estimating their own requirements. The recommendations made to address these audit matters are found in the corresponding section of the report and are summarized in Appendix 2.

The Bureau for Science and Technology in its official comments on the draft report indicated agreement with the findings and recommendations and was prepared to implement corrective action. However, the Bureau correctly pointed out that certain of the necessary actions involve decisions that must be made outside of the Bureau in Missions, recipient countries, and other A.I.D. offices. Accordingly, the Bureau suggested the report be directed above its level to the Administrator, A.I.D. as well.

1. **An Operational Implementation Plan Is Needed to Direct the Project**

Handbook 3, Chapter 9C provides that on complicated projects, project management should develop operational plans to direct and control day-to-day implementation tasks. The Contraceptive Procurement Project is complicated and involves a worldwide activity that includes estimating, procuring, shipping, warehousing, inventory control and quality assurance. The project lacks an operational implementation plan, and adequate staffing, to manage this activity. Responsible project officials apparently have not perceived the need for a plan nor have they been required to prepare one. In the absence of such direction, there is widespread confusion about how the system works, the responsibilities of the various participants, and where the project is going. The effect is a project without clearly defined goals, weak controls and ineffective direction.

Recommendation No. 1

We recommend that the Bureau for Science and Technology, Directorate for Population formulate a strategic plan with specific goals, objectives and clearly defined roles, responsibilities and performance criteria to clarify managerial control over the program and assign sufficient staff to effectively implement the plan.

Discussion

Logistics management is a critical service provided by the Directorate for Population. Logistics management includes requirement estimating, financial resource allocation, procurement, production scheduling, distribution, storage, inventory control, quality assurance, usage, disposal, loss reporting, system monitoring and verification. Some functions are continual and some are sequential, but all require

constant communications, performance feedback, unanimity of purpose and strong central guidance to operate effectively together.

For the Directorate for Population, project management equates to managing the distribution of the majority of the contraceptives donated to developing countries. This means at 1988 levels annual purchases of over 600 million condoms of 18 different kinds, 43 million cycles of oral pills of 6 different brands, 12 million foaming tablets, and almost 5 million IUDs. These commodities are provided to recipient countries through projects administered by U.S. Missions abroad and through arrangements with private voluntary organizations with similar interests.

These management tasks have grown steadily since procurements began in 1961, and have risen most dramatically in the last year. S&T/POP managers expect the requirement for condoms to grow more than 30 percent to about 800 million for 1990 and they predict the unbridled growth in demand to continue. Managers have dealt with past demand explosions by adjusting production, increasing funding, or through other ad hoc manipulations of resources. This type of approach did not work effectively; the program and its changes needed to be better managed and controlled.

Agency project design policy envisions a more detailed planning process that culminates in a comprehensive planning document for managing and controlling projects. Justification for the Contraceptive Procurement Project, however, is founded in the broad A.I.D. policy decisions to provide contraceptives to much of the world. The project, therefore, has been treated as a vehicle for buying and distributing contraceptives rather than as the focus of a complex and extended logistics management system with definitive goals and objectives. Only relatively brief project descriptions and papers used for Congressional presentation purposes describe how the project is to be implemented in conjunction with participating Missions, private voluntary organizations, and recipient government agencies. The Bureau for Science and

Technology had not required or perceived the need for a more detailed project authorization or implementation plan up to the time of the audit.

Handbook 3, Chapter 9C provides guidance for managing and controlling the implementation phases of complicated projects such as this one through the use of operational planning. Operational planning is distinguished from preproject planning and deals with the day-to-day implementation tasks. Such planning provides management with a tool to support the direction, assessment, and monitoring of project implementation. The concept recognizes that A.I.D. projects take place in an environment that makes it necessary to make adjustments as projects unfold.

To operate effectively, implementation plans need to be tied to a clear set of policies and objectives, and have an agreed upon delineations of responsibilities and controls, performance standards, feedback, adjustment mechanisms, and constant communications. A plan for the procurement project must address A.I.D.'s goal of promoting the development of client countries and making contraceptive supplies available, as well as the Administrator's objective of maintaining supply flexibility while achieving the most economical purchases (the rationale for having central procurement).

The Directorate for Population, because of its central procurement responsibilities and interfacing with Missions, cooperating agencies, and others, is in the best position to provide the required leadership and direction. Many CPSD-type functions already are carried out by outside contractors because of the scope and complexity of managing the distribution of contraceptives. Contractors, for example, maintain data management systems, advise on logistics matters, and arrange for shipments. GSA acts as the A.I.D. procurement agent. Thus, S&T/POP officials stated, and the auditors agreed, that additional human resources were needed if the project is to be managed

properly. Actual resource requirements would have to be established by determining the real needs of each operational aspect of the project.

Discussions with project participants in Washington, in the countries visited, and in the overseas Missions disclosed widespread confusion and uncertainty about the project and its implementing systems. Headquarters officials, for example, were concerned about the implications the recent increased demand for contraceptives had for A.I.D. commitments and how the small staff, three people working full time, would be able to cope with such a complicated project. Mission officials in Pakistan, Peru, and Ghana complained about confusion in the controls over funding documents, receipts of products, billings, and payments. Recipient country officials oftentimes did not understand their roles and responsibilities for commodity estimating vis-a-vis the A.I.D.-financed technical assistance contractors. Officials in Brazil termed A.I.D.'s technical assistance overwhelming and unnecessary.

An implementation plan would alleviate these concerns by providing a comprehensive document to which all participants could relate and be held accountable for and would bring the project more in line with A.I.D. project design and planning guidelines.

Management Comments

The Bureau said an implementation plan is a useful proposal. However, the plan's content, structure, and implementation presume an understanding that the contraceptive project aggregates and carries out procurement decisions that in fact are made largely outside the Bureau in Missions and regional bureaus. Notwithstanding these comments, the Bureau indicated it would draft a plan in coordination with the affected Missions and bureaus. The staffing implications of implementing such a plan were not known.

Office of Inspector General Comments

We do not underestimate the difficulty of developing a coordinated operational implementation plan. Nevertheless, as stated in the text of this report, we believe such a plan is absolutely essential for effective and efficient operations and should be accomplished as soon as possible. Adequate staffing is a necessary corollary to developing the plan and resources must be dedicated to its implementation. In our opinion, any new Agency resources needed would be of marginal consequences in terms of numbers and cost and A.I.D.'s leadership role in family planning and AIDS prevention.

2. Better Management Controls Would Help the Project Operate More Efficiently and Effectively

A complicated worldwide commodity delivery activity requires effective logistics support systems in order to be adequately implemented and controlled. The procurement and distribution of contraceptives is ineffectively controlled in many areas. Specifically, requirements estimating, commodity selection, financial resource accumulation, transportation and warehousing, host country storage and distribution, and product registration lack important controls. There are various reasons for these conditions, but fundamentally they exist because the project is implemented as a project for purchasing and distributing contraceptives instead of as an integrated logistics management task with all the component parts that need to be controlled. Because of the lack of effective support systems, commodities are not always available when needed, are misused, lost because of not being used before expiration dates, oversupplied and, in general, not effectively managed. The result is wasted resources and inefficient project implementation.

Recommendation No. 2

We recommend that the Bureau for Science and Technology, Directorate for Population take the lead role in developing effective procedures to control (a) requirements estimates, (b) contraceptive procurements, as to sizes, varieties, and colors (c) sales proceeds, (d) transportation, warehousing, and distribution of commodities, domestically and internationally, and (e) registration of products for use in other countries.

Discussion

The following paragraphs describe the more significant problems disclosed by the audit in the operational aspects of the project. They

exemplify the numerous program problems directly and indirectly related to the absence of effective controls and decisive guidance tied to a clear set of program policies and objectives.

Estimating Requirements

In order to more effectively manage the logistics operations, CPSD developed and institutionalized an annual (prevalence of use based) process for estimating needs called the Contraceptive Procurement Table (CPT). CPTs are developed for each recipient country using data that estimates the frequency of use, stock on hand and needed, and supplies expected from other donors.

CPSD's efforts to estimate and stabilize recurring requirements have been dramatically affected by the recent growth in demand for condoms. Over 67 percent of the 1989 contraceptive budget was for condoms, and CPSD managers expected demands to increase substantially. The rapid and sudden growth relates basically to sub-Saharan Africa, and to the AIDS prevention program. Yet, up through 1990 estimates the CPT process focused essentially on family planning needs. For 1989, S&T/POP planned on buying about $50 million of contraceptives. Because Missions requested changes to their estimated requirements, S&T expected to spend over $60 million, a 20-percent increase over planned purchases and a 50-percent increase from previous levels. All contraceptive requirements need to be built into the CPT process if the project is to service family planning program needs and AIDS prevention.

A basic requirements estimating rule is that all intended recipients report their needs. One of the major private cooperating agencies to whom A.I.D. provides contraceptive commodities in numerous countries has consistently not provided CPTs for its programs. Also, in some countries we visited, the requirement estimates did not include amounts received from other donor countries. Major gaps existed, therefore, in

the information needed to develop valid estimates. How estimates are to be derived must be agreed upon by all recipients and donors and reporting procedures put into place and followed to ensure necessary data is provided and can be verified.

Missions often change their requests or make unexpected requests that they expect CPSD to fill. CPSD usually accommodates these requests by disrupting production orders and shipments, and by borrowing one country's products and sending them to another, thus adding to the complexity of managing the project. Arrangements with Missions (and cooperating agencies) should reflect the intention to abide by originally requested quantities, to restrict "emergency" requests to legitimate emergencies, and to minimize changes so that the supply process is not unduly disrupted.

Optimistic assumptions about country requirements and the failure to limit supplies to demonstrated needs have resulted in many cases of oversupply. In Ghana, for 1988, for example, the population officer requested three million condoms for the Ministry of Health program, but received four million instead. Haiti, between 1984 and 1987, reportedly received about 58 million more condoms than its requirement of 2 million per year. The oversupply amounted to about $2.5 million. Peruvian officials told us that the market for condoms in Peru for the three years 1986 to 1988 totaled about 12 million. A.I.D., however, provided 19.4 million, about 60 percent more. The 7.4 million excess cost about $313,760. Mexico, Bangladesh, and Brazil among others, in the past also have had extraordinary amounts of contraceptive stocks on hand that led to destructions and losses of product. Procedures that tie in verified requirements and shipments must be established and followed.

Procuring Condoms

A.I .D. buys 18 different kinds, 2 different sizes, and 5 different colors of condoms. One of the most difficult planning factors for manufacturers responding to these diverse demands concerns the packaging materials required; specifically, the film (the wrapping for each individual condom) and the special boxes needed. These items require substantial advance planning efforts and are major cost drivers. Manufacturers said they needed 3 to 4 months advance notice to order different film for each of the 18 kinds of condoms. Manufacturers also must order special boxes for A.I.D. requirements. The industry standard is to box quantities of 144, but A.I.D. orders boxes of 100.

The wide range of condoms that cause film ordering problems is a function of the preferences of recipient countries who identify with established local brand names. Although there may not be an overall consensus on the issue, S&T/POP managers, Mission population officers, condom manufacturers, and host country managers that we spoke with agreed that multiple kinds and colors are unnecessary and that generic brands or manufacturers' brands could be substituted resulting in lower costs.

Social marketing managers in several countries indicated that they printed their own outside packaging and repacked the A.I.D. shipments to make packs of three or four condoms. This practice was followed in Costa Rica, Ghana, Pakistan, and Zimbabwe. Repackaging effectively negates the manufacturers use of special films for the condoms provided.

Six of the 18 "kinds" procured by A.I.D. were for public sector programs. Public sector condoms distributed free were labeled to distinguish them from the social marketing program commodities. One brand, however, instead of six should be sufficient. A generic brand or

the manufacturer's brand provided for public sector activities would also help minimize costs and confusion.

Finally, there is the question of condom sizes and colors and their effect on A.I.D.'s procurement process. A.I.D. buys two sizes of condoms; a 49 mm size and a 52 mm size. The 49 mm size constitutes about 30 percent of the total amount purchased, and is essentially for Bangladesh which receives about 90 percent of the production. Nepal and Thailand receive smaller amounts. A.I.D. also buys five different colors. Different sizes and colors complicate the request for bids, production runs, and storage procedures. We were unable to determine whether two sizes and so many colors were necessary. Unless there is a clear justification for purchasing two sizes of condoms, and a variety of colors, A.I.D. should purchase only one size and one color.

Addressing some specification issues requires information that only research can provide. But issues that effect quantities, competition, and self-inflicted complexities should be handled through timely decisions by A.I.D. managers. The issue of how many brands, colors, and sizes should be purchased is a fundamental question that needs to be addressed as overall A.I.D. policy from an economy, efficiency viewpoint.

Sales Proceeds

Proceeds from the sales of A.I.D.-financed contraceptive commodities were not always properly segregated and specifically identified to either defray dollar project costs or to increase quantities purchased. Proceeds were usually deposited in government and private accounts without clear ground rules as to how these funds were to be used. This situation appeared to be fairly widespread as questionable controls over sales revenues existed in Pakistan, Ghana, and reportedly in Nigeria and Egypt.

In view of the local currency deposit requirements of the Foreign Assistance Act and A.I.D. guidelines, revenues generated from the sale of contraceptives should be segregated and used for project-related activities. To the extent that the proceeds can be used to defray U.S project dollar outlays for contraceptives, overall cost savings can accrue. Or, these proceeds can be used to increase the amounts of commodities purchased. In either event, there is an impact on A.I.D.'s allocation of financial resources to contraceptive procurements.

In the case of Egypt, for example, we reported in May 1988 that proceeds totaling more than $2 million from public sector sales of A.I.D.-financed and non-A.I.D.-financed contraceptives were not segregated and used for mutually agreed upon project purposes. This condition existed because project agreements did not provide for handling revenues generated from such sales. By contrast, a revenue agreement provided for the disposition of private sector sales proceeds. These proceeds were used to significantly reduce the cash requirements of a private voluntary organization involved in distributing contraceptives which A.I.D. otherwise would have provided.

S&T/POP and Missions should formally agree with all host governments and private agencies on the disposition of the sales proceeds and these agreements should be incorporated into a project operational implementation plan.

Transportation and Warehousing

Holding purchased commodities in storage is an expense that logistics managers try to avoid or limit. The idea is to move production quickly through the distribution channels to the customer. Adapting this principle to the CPSD system dictates that most warehousing should be done in the recipient countries. Further, recipient countries should concentrate on moving their stocks as far forward as practicable.

These things are done, but, in our opinion, not to the extent possible nor very efficiently in many cases.

Most contraceptives are shipped from the five manufacturers to ports of embarkation, then on to their final destinations. Commodities not sent directly abroad are delivered primarily to the FPIA-operated warehouse in New Windsor, Maryland. A small amount is sent to a JSI-contracted facility near Baltimore and to an interim FPIA storage point in Brownsville, Texas.

In spite of efforts to move production directly to recipients, during fiscal years 1986 through 1988 CPSD sent between 29 and 47 percent of purchased production to the two stateside warehouses. In some cases the stock remained there for several years before being shipped or was destroyed because of expired shelf lifes or product deterioration. Commodities sent from U.S. warehouses sometimes were 2 to 2 1/2 years or older upon receipt in-country. These conditions were noted in Mexico, Costa Rica, Ghana, and Brazil among other countries. Shipments sent to U.S. warehouses in 1988, by commodity, are shown in the exhibits to this report.

We were unable to trace a number of shipments to determine why products were received by Costa Rica and Ghana close to the shelf life expiration dates. Nevertheless, it was clear that condoms and pills had been held in stateside warehouses for extended periods before being sent overseas thereby effectively utilizing much of the products' five year shelf life and undoubtedly led to the destruction of products.

The audit did not examine deeply into shipping arrangements because of other ongoing examinations. Between 1985 and 1988, however, about 54 percent of all A.I.D. contraceptive shipments went to two countries, Bangladesh and Pakistan. These shipments which in 1988 included about 307 million condoms, valued at about $12.1 million were sent frequently from the factories by GSA and had few problems. The

remainder of the purchased commodities that was shipped overseas was sent to 80 other countries. The frequency of these shipments was low, but the problems were more numerous.

In general, it appeared that GSA air shipments and shipments from domestic warehouses took a long time to arrive whether sent by ocean or by air. Shipping documents were in error or did not arrive at the recipients' offices. Along the way from plant or warehouse to recipient, shipments spent time in Europe, changed vessels, sat in customs holding areas awaiting corrected paperwork or customs fees, sometimes were lost in ports while their documentation caught up with them, or went to the wrong countries altogether. To illustrate:

- Brazilian authorities said that a condom shipment was held in customs for over a year and later was confiscated as contraband because shipping documents contained conflicting information.

- USAID/Nepal complained that they and the American Consulate in Calcutta, India had problems identifying and clearing shipments for Nepal due to different markings of bills of lading. The Mission also complained that transshipments via consolidators in Europe and elsewhere were delayed and "created havoc" in Calcutta due to different bills of lading with different origin points, and different descriptions of cargo.

- A shipment of 12,000 condoms from a U.S. warehouse to St. Vincent, West Indies, never arrived.

- A shipment to Thailand involved an in-country agent who could not be located delaying customs clearance of the condoms for about 3 1/2 months.

- A shipment of 10,000 IUD's ordered by Pakistan was sent instead to Calcutta, India for USAID/Nepal.

Between 1986 and 1988 the frequency of higher cost air shipments ranged from 20 to 30 percent of total shipments. Sometimes air shipments are preferred for the security of the shipment. But, frequent emergency resupplies by air of millions of condoms is hard to understand. The audit found that air shipments were made usually when Missions requested them regardless of the priority, or for questionable "emergency" shipments.

The chief cause for the warehouse and shipping problems is S&T/POP's lack of control over the processes. For example, shipping arrangements are handled by other outside activities--GSA and FPIA. In addition, S&T/POP is unable to effectively coordinate operations with private voluntary organizations, Mission population officers, and A.I.D. in-country representatives who play essential roles in making the warehousing and shipping systems work.

In sum, there needs to be better defined procedures for storing and transporting products, domestically and abroad. More emphasis probably should be placed upon manufacturers making direct shipments and keeping backup stocks. The modes of transportation to be used and under what conditions, and estimated delivery times for different locations also need to be defined.

CPSD is working on some aspects of these problems. It has had only limited success to date and CPSD still cannot track all its shipments. In September 1989, CPSD was acquiring the services of a Procurement Service Agent (PSA) to handle <u>all</u> shipping and warehousing. This could be a good solution, although it is only one of several alternatives. Other alternatives include A.I.D. and/or its suppliers doing the warehousing and shipping. Direct shipments by suppliers is particularly attractive because they are familiar with overseas shipping requirements and usually have warehouse space available that can service A.I.D.'s needs.

In-country Storage and Distribution

Although A.I.D. financed warehouses and related services in some countries, the operative notion was to work around the basic inadequacies of the countries' existing storage and distribution systems.

The audit showed that numerous recipient government and private cooperating agency contact points existed that made it difficult to control receipt and distribution of the products in-country on a consistent basis. Warehouse conditions varied from good to bad as did the country distribution systems.

In Mexico, for example, two agencies, the Ministry of Health and Social Security received commodities. One central warehouse was orderly, and well maintained; one was not. Private sector receipts were often difficult to clear through customs; public sector receipts were not.

In Costa Rica, there were also two agencies receiving commodities. Both warehouses were good; but one was much better. Condom storage at one was inadequate because boxes were stacked high under hot galvanized metal roof conditions and excellent at the other.

In. Ghana, the Ministry of Health used space in a United Nations warehouse. The conditions were poor. Commodities were packed in aisles and stacked on their sides. It was impossible to count the cases, so we doubt that required monthly inventories were done. Condoms were over two years old when they arrived and they had not moved in six months. The Ministry of Health staff was too small to do their tasks.

The best and most efficient in-country distribution system we observed was in Zimbabwe. One agency within the government handled family planning commodities and it used commercial overnight delivery service to ship commodities.

In other countries where the distribution of commodities was unreliable, ministries often relied upon their own vehicles which were in short supply, being used for other tasks, or frequently broken. There was little use of more efficient private sector systems to support or supplement less reliable public sector distribution systems.

The problems of in-country storage and distribution could be mitigated by agreed upon procedures and practices. In neither area, however, were there well articulated and consistently applied procedures for receiving, storing, and distributing commodities. Such procedures should be developed and disseminated. Also, greater reliance should be placed on more reliable private sector storage and distribution systems.

Product Registration

Oral contraceptives (Lo-Femenal, Wyeth-Ayerst International Inc.) used in the public sector program in Pakistan were not registered with Pakistani authorities for use in that country. A representative of Wyeth-Ayerst indicated that its pill had not been registered because A.I.D. had never requested them to do so. The representative added that they had no problem in filing an application if A.I.D. wanted the product to be registered.

The Government of Pakistan requires that all pharmaceuticals have health registrations. Even though Lo-Femenal has never been registered, there apparently have been no blockages or holding of A.I.D.-financed contraceptive commodity shipments by customs officials.

A JSI consultant indicated that the Pakistan situation exists in other countries. Nevertheless, he said that there have been only a few instances in Latin America in which shipments were held up by customs officials because the shipped products were not registered, but

that no products had been returned to A.I.D. or destroyed for nonregistration.

According to the consultant, JSI is in the process of collecting information from all Missions regarding country registration requirements and the status of such registrations for A.I.D.-financed contraceptive commodities. This information will be included in country profiles and in the computer system to preclude shipments of unregistered contraceptive commodities to participating countries.

The question of product registration as a condition of shipment overseas should be covered specifically by S&T/POP in a project operational implementation plan. In the meantime, it should request that Wyeth-Ayerst International Inc. file an application for health registration of Lo-Femenal in Pakistan.

Management Comments

The Bureau commented that it already exercises control, in varying degrees, over all the areas mentioned in this report finding. It said the need was to strengthen, expand and systematize these existing controls. This meant identifying the responsibilities of each section of A.I.D. involved in procurement actions for control procedures because many procurement actions occur outside of the Bureau. Also, strengthened control procedures would require periodic review and updating. The Bureau indicated it would assist in drafting strengthened controls and implementation procedures involving the Bureau, Missions and regional bureaus in conjunction with addressing the previous report recommendation to develop an implementation plan.

Office of Inspector General Comments

The indicated actions are responsive to the audit recommendation. The task outlined by the Bureau will be difficult, but necessary. As

with other recommendations in this report, Recommendation No. 2 will require a coordinated effort with the effected parties. S&T/POP should take the lead role in the endeavor because it is the central agency activity responsible for procurement and logistics management matters. If its lack of authority proves to be a problem, we believe the Administrator should task S&T/POP with responsibility for directing a coordinated project effort.

3. A.I.D. Should Do Its Own Procurement

Since 1967 A.I.D. has used the General Services Administration to annually procure and ship contraceptives. This function, however, does not require any particularly unique procurement expertise. Consistent with good management practice, A.I.D. should utilize its available in-house resources for this purpose. Although mutually beneficial in certain respects, the GSA relationship has not allowed A.I.D. to develop and use an in-house capability for controlling commodities critical to its programs; has limited A.I.D.'s flexibility in dealing directly with suppliers; has created significant administrative problems; and recently has increased program costs unnecessarily. These administrative drawbacks support discontinuing the GSA arrangement.

Recommendation No. 3

We recommend that the Bureau for Science and Technology, Directorate for Population prepare an action memorandum to the A.I.D. Administrator recommending (a) changing the procurement function from the General Services Administration to the A.I.D. Office of Procurement, Bureau for Management, and (b) providing the staffing to carry it out.

Discussion

In August 1967, the A.I.D. Administrator approved a general agreement with the General Services Administration, which, among other things, provided for technical and commodity support services for the family planning program. Since that time, GSA has handled all of A.I.D.'s annual procurement requirements for condoms, oral pills, vaginal foaming tablets, and intrauterine devices (IUDs). An underlying premise of the Agreement was that GSA had ". . . the unique personnel resources, capabilities, and experience relevant to the task of

building . . . the human and institutional resources essential to sustained national development of the less developed societies."

A.I.D Handbook 15, Chapter 6, Special Commodity Procurement Arrangements describes the actual procedures to be followed. The Handbook states that contraceptives and related supplies under consolidated procurement contracts, must be processed by projects in accordance with practices described in the chapter, unless otherwise specifically authorized by the Bureau for Science and Technology, Directorate for Population.

Contrary to the underlying premise of the agreement with GSA, the procurement of contraceptives year-to-year is a fairly routine, basically unchanging process. Some procurements have options to extend the arrangements for several years requiring no annual solicitation of bids. Also, procurements usually are made from the same suppliers (3 of 5 contracts are sole source with only one U.S. manufacturer) which again limits the effort and required expertise. Continuation of GSA's awards practices pose important policy considerations for A.I.D.

Based upon the recent history of responses to contract solicitations, only one U.S. condom manufacturer is able to handle the total amount that GSA requests for A.I.D. Since 1983, GSA, acting for A.I.D., has awarded no partial quantity contracts for the annual solicitation because lower overall costs were obtainable through awarding one large volume contract. To complete the solicitation with a combination of the smaller manufacturers' bids and the largest manufacturer's bid was considered more costly than if the largest manufacturer produced everything. This process has resulted in the same single supplier receiving the last six production contracts dating back to July 1984 and collectively valued at about $116 million. A future consideration in these awards is whether it would be in A.I.D.'s public policy interests to diversify supply sources to some extent.

GSA also has a sole source contract for oral pills used in the A.I.D.-supported social marketing programs. This contract was awarded in 1988 for one-year's requirements with three 1-year options to extend. GSA exercised the option in 1989 and was about to exercise it for 1990. The cost of a pill cycle under the 1990 contract is $.256, almost twice the cost of a pill cycle purchased for public sector programs ($.135). In 1989 A.I.D. purchased 12 million cycles of oral pills for social marketing programs at a cost of $3.1 million.

S&T/POP explained that the reason the higher cost contract was sole source was to maintain continuity of product in programs in which users paid for this product. In addition, S&T/POP indicated that it was not aware that the formulation of the pill used in social marketing programs was off-patent. In light of the fact that patent may no longer be an issue, S&T/POP must consider competing the contract for oral pills used in social marketing programs. A competitive contract could result in obtaining essentially the same pill at substantially lower cost.

Directorate of Population and GSA officials indicated that the relationship had been mutually beneficial and they were interested in continuing it. Nevertheless, several other management considerations argue against continuation. For example:

- Quality assurance services for condom testing under the agreement are limited to the infrequent visits of a single GSA inspector assigned to overview quality control at the condom manufacturer's plant.

- The GSA arrangement has caused A.I.D. not to develop and use its in-house capability to buy commodities critical to operating family planning and AIDS prevention programs.

- A.I.D. program managers are constrained from dealing directly with suppliers on such matters as delivery schedules and product quality control and inspection. Potential suppliers consult with GSA

regarding specifications and A.I.D. quantity and delivery requirements. In effect, the relationship supplants S&T/POP's normal responsibilities in connection with managing its most important programs and must be considered counterproductive to developing an independent management capability in this area.

Finally, there is the question of additional costs. Until early in fiscal year 1989, GSA's services were free to A.I.D. Although the Agreement provided for reimbursement of GSA's costs, apparently that provision was never energized, at least in recent years. However, the fiscal year 1987 Continuing Resolution permitted GSA's Federal Supply Service to recover the full cost of operations associated with providing supplies and services to other government agencies through the use of a 6-percent surcharge. When applied to A.I.D.'s expected fiscal year 1989 procurement costs of about $65 million, the 6-percent charge approximates $3.9 million per year. These charges appear disproportionate to the benefits received and most of the amount seems additional.

Termination of the Agreement would have several positive aspects. First of all, A.I.D. would develop its own procurement expertise for commodities currently being procured as well as those technologies likely to come on line in the future. The low prices available to A.I.D. through consolidating purchases and minimizing supply sources are considered current advantages. Notwithstanding, A.I.D. would be able to address directly continuation of the single supplier method of filling its needs for condoms as well as for pills and IUDs from a public policy viewpoint with consideration given to the advantages of diversified supply sources. Secondly, A.I.D. would have more direct contact with its own suppliers and shippers instead of working through intermediaries. Thirdly, A.I.D. would not incur the additional costs associated with GSA's surcharges for services provided.

Management Comments

The Bureau agreed there was no justification for continued contraceptive procurements through GSA given the substantial cost savings and management efficiencies that can be achieved by transferring the procurement function to A.I.D. We were advised that the A.I.D. Office of Procurement supported this view. The Bureau also stated that the fiscal year 1990 procurement cycle requires that a decision to transfer responsibilities must be made no later than the end of calendar year 1989. Otherwise, about $4 million would be incurred for the GSA surcharge.

Office of Inspector General Comments

The decision whether to terminate aspects of the A.I.D.-GSA agreement dealing with the procurement of contraceptives should be made by the Administrator, A.I.D. Accordingly, this report should be provided directly to the Administrator with an action memorandum recommendation for his determination in this matter.

4. An Alternative Funding Arrangement Would Improve the Procurement of Commodities Function

Contraceptives for A.I.D. activities worldwide are centrally procured, but most of the funding comes from Regional Bureaus and Missions. This contributory funding process does not work efficiently or effectively because of the large number of funding sources, production contracts, multiple shippers, and complex billing procedures. The unnecessarily complicated funding process does not comply with adequate internal control procedures. With the system's loose controls, there is limited assurance that funds are used only for intended purposes and that contraceptive commodities are procured for, shipped, and received according to funding sources. Alternative funding arrangements would allow more efficient and effective use of A.I.D. funds.

Recommendation No. 4

We recommend that the Bureau for Science and Technology, Directorate for Population prepare an action memorandum for the A.I.D. Administrator recommending the development and implementation of an improved funding mechanism for contraceptive commodities that is consistent with a centralized procurement activity.

Discussion

The bulk of the funding for contraceptive purchases, which has increased steadily from $34.7 million in fiscal year 1984 to $43.6 million in fiscal year 1988, comes from Regional Bureaus and Missions. In 1988, three Regional Bureaus and 21 Missions accounted for over 73 percent of total A.I.D. funding.

Funding arrangements stem from a September 1979 Agency-wide Task Force on Contraceptive Procurement which was convened to examine

A.I.D.'s procurement practices and procedures. The Task Force concluded that the existing central procurement system should be retained and operated under a new project. Thus, in March 1980, the A.I.D. Administrator approved a central contraceptive procurement project. The project was to be funded with a combination of monies transferred by Regional Bureaus and/or Missions to S&T/POP's central account at the beginning of each year. The Administrator also approved a system of budgeting and funds control that retained responsibility for contraceptive budgets and inventory management at the Mission level.

Favorable prices for large quantity purchases and flexibility in the procurement and shipment of commodities to service programs were viewed as the anticipated benefits. A.I.D. Handbook 15 reflects the Task Force's views and states that all project contraceptive commodities and related supplies must be procured under consolidated production contracts.

The funding process is an administrative nightmare because of the large number of funding sources and production contracts, the huge volume of paperwork involved, and the difficulties in securing funding commitments in a timely manner from Regional Bureaus and Missions which result in delays in awarding production contracts. Up front funding is a GSA prerequisite to placing the annual production contracts.

The audit found that in many cases, it was difficult, time consuming, and nearly impossible to reconcile the cost of shipments to recipient activities because of the volume and wide diversity of funding documents used. For instance, in fiscal year 1988, CPSD handled 50 Mission-issued Project Implementation Orders, Commodities (PIO/Cs). This meant that in addition to the numerous allotment transfers from other Bureaus, S&T/POP had 50 different requests for purchases to account for in terms of the monies set aside for such purchases. Each

of these PIO/C's typically would involve multiple shipments for which Missions would have to be billed and checks written.

As an example, the volume of transactions recorded, tracked and reported by CPSD for USAID/Bangladesh, in fiscal year 1988 alone, involved 31 shipments. Similarly, there were 11 shipments to USAID/Jamaica. Given this sample range of transaction volume and the fact that approximately 82 countries participated in the project, it is not difficult to visualize the overwhelming task of monitoring and administering funding and shipments; much less the nearly impossible task of reconciling funding, shipments, receipts, and billing transactions. This situation is further complicated by the separate and independent GSA billing process which generates approximately 400 billings per year to Missions and A.I.D./Washington. Open funding commitments on CPSD's records that cannot be reconciled because of this problem date back to at least 1985.

The present complicated funding process makes the procurement function unnecessarily complex and cumbersome and possibly counter-productive to its purpose of realizing favorable quantity prices and affording flexibility in the procurement and shipment of contraceptives. It is also inconsistent with internal control procedures which require that payments match the commodities received. Incorrectly reporting to the funding organizations the status of their expenditures and account balances violates an A.I.D. internal control objective that expenditures be accounted for properly. With the system's loose controls there was limited assurance that funds were used only to purchase the intended commodities and that contraceptives ordered were shipped to and received by the funding organizations.

Finding ways to relieve the obvious strain on the financial control system is essential because the increased growth in contraceptive demand can only further exacerbate conditions. Unless these matters

are addressed, much of project management's attention will continue to be concerned with administrative problems instead of being focused on the more important implementation matters of quality assurance and improving the logistics system.

Scrapping the current multi-funding system and putting the total funding needs into the Bureau for Science and Technology budget would be a more prudent, efficient and cost effective way of managing and funding central procurement of contraceptives. This is, however, just one of several alternatives that could be used.

One solution is to centralize all budget and funding in S&T without billings to the Missions. This alternative is probably the simplest to administer and easiest to implement. The entire billing to Missions process could be eliminated which would result in significant tangible savings.

The second alternative, which has been viewed by S&T/POP as an interim step in achieving the first alternative, is to establish a revolving fund similar to a revolving charge account. Initially, the account would be established and used to fund production contracts. Then, as contraceptives were shipped, the Mission would be billed and the fund continuously replenished. Under this method, S&T would control the budget to fund production contracts, billings would relate to shipments and receipts, and projects would reflect actual commodity costs.

The third alternative involves funding a central account annually and billing costs to Missions as contraceptives are shipped, or at the end of a designated billing period. Unlike the second alternative, however, this method would not provide a mechanism for continuous funding.

Detailed operating procedures are required for any conversion to a new funding system. Under each of these alternatives A.I.D., not GSA, would administer billings.

Management Comments

The Bureau said the report recommendation concerning procurement funding was the key to a more efficient procurement process. It said a radical streamlining was needed so that all funds intended for contraceptive procurements could be funneled into a central account that would be charged for all procurement actions. Accountability at the Mission level would be preserved by status-of-account reports that matched the funding Missions provided with shipments received. The Bureau also said that the complex nature of the issues and the broad range of A.I.D. offices involved requires attention and action at the highest levels of A.I.D. It indicated that the earliest feasible target year for change is fiscal year 1991 for which a decision and a plan to implement would be needed by late fiscal year 1990.

Office of Inspector General Comments

Funneling all contraceptive procurement funds into a central account and then providing billing and shipping data to Missions for accounting purposes is one of the three alternatives suggested in the text of the audit report, and is an acceptable way to operate in our opinion. We agree that cleaning up the funding problem is probably the most important change that can be made and implementation should not be delayed any longer than is absolutely necessary.

5. A Quality Control Program for A.I.D.-Financed Contraceptives Would Improve Program Effectiveness

Quality control problems existed in most of the countries visited. Product testing was done only at manufacturers' facilities and in a few countries, usually upon receipt of the contraceptives at the central warehouses or in reaction to complaints, or to check serviceability of nearly expired commodities. Quality control is required in order to provide safe, effective products as well as to identify product integrity problems and the reasons for such problems. A more comprehensive quality assurance program covering the entire distribution process has not been established because of funding and staffing limitations. Thus, A.I.D. has not always been able to assure delivery of safe, reliable products to users, to readily detect deteriorated products being retained in the system, or to identify the causes of and pinpoint responsibility for destructions and losses of products.

Recommendation No. 5

We recommend that the Bureau for Science and Technology, Directorate for Population, Commodity and Program Support Division develop and implement a quality control program that establishes performance standards and criteria for storing, warehousing, shipping and handling commodities as well as testing contraceptives throughout the distribution system.

Discussion

Quality control is a continuing process that begins with the manufacturer and continues as the item ages and moves through the distribution pipeline to the ultimate users. Programs that distribute products for contraception and/or sexually transmitted disease prevention must include procedures for monitoring the quality of the

products, as the integrity of the program ultimately hinges on the quality of the products provided.

Quality control embraces a system of defined procedures that when appropriately implemented increase the prospects that quality contraceptives will reach the users. It involves production, shipment, storage and distribution, and visual and laboratory testing as appropriate.

A.I.D. basically relies upon in-country quality control procedures which in many cases are non-existent or not followed. Actual testing existed only at the manufacturers' facilities and in a few countries. The in-country testing which involved some visual and laboratory procedures was done upon receipt of the contraceptives at the central warehouses. There were no other regular examinations performed throughout the system. Laboratory testing after manufacture was performed generally in reaction to complaints or to check serviceability of nearly expired commodities. These sporadic efforts were neither sufficient to guarantee delivery of quality products to program recipients nor to pinpoint causes of product problems.

The audit found that the absence of an effective quality assurance program increased the likelihood that deteriorated contraceptives and products of questionable utility were being retained in the system for distribution to users. Also, at least $2 million of unfit condoms, pills and IUDs reportedly had already been destroyed. The destructions were not significant in terms of overall shipments, but their cost in absolute terms was substantial. In the past, the worst consequence of a broken condom was thought to be an unwanted birth. Now with the AIDS epidemic, the consequences could be fatal. Without a quality control program that operates throughout the distribution process, it is impossible to know the condition of commodities in the system or to identify the causes of deterioration and losses and pinpoint

responsibility because it cannot be established where the problems first occurred.

The current conditions reflect basic inadequacies in the commodity distribution system. They demonstrate the need to improve the system and to enhance it with legitimate quality assurance procedures.

According to the Program for Appropriate Technology in Health/Program for the Introduction and Adaptation of Contraceptive Technology (PATH/PIACT), systematic testing can prevent the distribution and destruction of unfit products, since such testing can detect deterioration before products become unfit to use. PATH/PIACT is a non-profit non-governmental organization whose objective is to improve the availability, effectiveness, safety, and acceptance of contraceptive and health products in developing countries.

PATH/PIACT points out that systematic testing can be as simple as periodic visual inspections of contraceptives. Only when there is evidence of abnormality is laboratory testing recommended. PATH/PIACT suggests however, that latex condoms, should be tested at regular intervals because of their susceptibility to deterioration under suboptimal storage conditions. In addition, PATH/PIACT recommends that products be carefully evaluated visually or through quality testing upon receipt from a donor agency. Further, the organization believes that testing upon receipt is a critical step in quality monitoring because it establishes a baseline against which future inspections or test results can be measured.

The absence of a quality assurance program for contraceptives was caused by S&T/POP not taking a more active role in this area. S&T/POP has not promulgated quality control procedures to establish standards and criteria for storage, warehousing, shipping, and handling commodities. At the factory level, S&T appropriately has relied upon the Food and Drug Administration-supervised quality assurance

programs for outside inspection of pills, IUDs, and vaginal foaming tablets. However, S&T has relied upon a single GSA inspector to test condoms. The GSA inspector told us he had not rejected a single lot in the last 20 years. This performance record is put into question by the numerous quality problems reported at storage locations in the United States and in other countries.

The need for a formal quality assurance program is evidenced by the multi-faceted problems and indications of possible problems found during the audit. To illustrate:

> In 1989, around 5.5 million Majestic condoms purchased for Bangladesh and approximately two years old, were destroyed. These condoms, valued at $233,750, were tested by Family Health International (FHI), in response to a Consumer Reports article which found that the domestic equivalent of Majestics was less than fully acceptable. FHI, a nonprofit biomedical research and technical assistance organization, concluded that these condoms stored at a warehouse in the United States had unacceptable failure rates and were marginally acceptable. The test results questioned whether the condoms were in good quality condition when they left the factory or whether they deteriorated in the stateside warehouse. Without a quality assurance program that operates throughout the distribution process, this question is difficult if not impossible to answer.
>
> Headquarters' records of disposals are incomplete and only sketchy records are available in host countries. Consequently, the audit could not establish the magnitude of disposals. However, there were indications that several millions of dollars of contraceptives have been destroyed over time. For example, in Mexico, available documentary evidence indicated that 1.6 million condoms and 3.6 million cycles of oral pills both valued at about $1 million were destroyed because the shelf life of these products had expired.

Likewise in Bangladesh, the Mission reported that 3.2 million condoms and 660,680 cycles of oral pills valued at $305,788 were destroyed because the expiration dates had passed. Had a quality assurance program been in place, such destructions may not have been necessary.

In all countries visited except Zimbabwe, there were distribution management problems which accelerated deterioration of contraceptives. For example, in Thailand and Peru, we found boxes of contraceptives stored so tightly that the first-in, first-out inventory system was impossible to implement. In Thailand boxes were stored under a leaking roof. In Costa Rica condoms were stacked nearly to the ceiling under a hot galvanized tin roof and exposed to fluorescent lights. Condoms stored under these conditions tend to deteriorate more quickly than normal.

Of the eight countries we visited only four countries, Pakistan, Mexico, Costa Rica, and Brazil, had any systematic testing of contraceptives. In three countries, this testing was limited to condoms when they arrived in-country. In the fourth country the testing was limited to oral pills when they arrived in-country. In Brazil, the government agency that performed the testing had never apprised the program manager of the test results.

In Pakistan, the quality of the condoms (not the packaging) was tested by the National Research Institute for Fertility Control for both the public and private sectors, when the product arrived in-country. The auditors were told that no condoms (samples from shipments) have failed the tests in the twenty years that condoms have been tested.

On the other hand, the social marketing firm in Pakistan performed their own tests on the packaging of private sector condoms when they received a consignment from the central warehouse. The firm's researchers indicated that this testing showed there was a "problem"

with the quality of packaging because of leakage. We were told that no records were maintained for packaging test results because such records could create a liability problem for the firm. They stated that no follow-up action is taken when failures are detected, and the purpose of the testing is to allow salesmen to say that the product has been tested.

A scientifically selected, but limited sample of Social Marketing Program condoms obtained by the audit team was tested by FHI in the United States. The tests found that 10.2 to 14.3 percent of the sampled condoms failed the packaging test. These results indicated the probability of a "problem" and that further investigation was warranted. In 1988, the Pakistan Social Marketing Program received about 41.9 million condoms.

In Mexico, the Mexican Institute for Social Security (IMSS) tests condoms when they are received in-country. IMSS reported two instances of possibly defective condoms. FHI and the manufacturer were involved in the investigation related to the most recent instance in November 1988. The manufacturer's representative conducted a visual examination of the seals of a sample of condoms and found no failures by squeezing the packages. This same test was performed by FHI. Again, no failures were found. FHI then conducted the same test underwater and in water under a vacuum. These additional tests yielded failure rates of 4 percent and 6.4 percent, respectively. It should be noted, however, that there are no agreed upon test procedures for underwater testing of packaging and FHI's results were not conclusive.

None of the countries visited had any systematic monitoring or testing while products were in or after the products left the central warehouses. Laboratory tests are done only when there are complaints regarding the products or reports of expired products. Usually, these tests require a protracted process of sampling and

shipment to the United States. It is a reactive rather than a proactive process. As a result of the absence of systematic monitoring and testing at different levels of distribution, contraceptives are distributed with limited positive assurances as to quality.

To better ensure high quality, acceptable products, A.I.D. has explored an arrangement with the Food and Drug Administration (FDA). In 1988, FDA submitted a proposed "Interagency Agreement Between the Agency for International Development and the Food and Drug Administration." Under this agreement FDA would be responsible for medical commodities regulated by the FDA and other mutually agreed upon products. The agreement would cover procurements administered for A.I.D. by other Federal agencies, and procurements financed by A.I.D. in host countries. The Department of Defense already has such an agreement with FDA for the commodities it purchases. A.I.D.'s acceptance of this agreement would be the first step in establishing a much needed quality assurance program. However, the A.I.D. Office of Procurement has never finalized the agreement, apparently because of funding problems.

Because of the ethical and liability issues involved in distributing expired or defective contraceptive products, it is essential that A.I.D. develop a quality assurance program. In fact, we question the rationale of not directing that testing mechanisms be established as part of the cooperating agency or host country's condition for participating in the program. Encouraging development of a quality control capability should be part of A.I.D.'s institution building objectives.

S&T/POP agreed that quality assurance improvements were needed, but pointed out that requirements are costly to implement and funds are limited. Nevertheless, in 1988, CPSD took the first step of collecting needed information by contracting with FHI to conduct a condom testing project. The project goal is to ensure that condoms

distributed through Mission-sponsored programs are providing adequate protection for users.

Management Comments

In responding to the draft report, the Bureau commented that the strengthened quality assurance program outlined in the report recommendation was welcomed and needed. Such a program, however, would require the concurrence and cooperation of A.I.D. Missions and host country recipients, and would substantially increase budget requirements. Nevertheless, it said S&T/POP would take the lead in developing a plan that incorporates and coordinates the measures already in place with the new measures required to implement the report recommendation.

Office of Inspector General Comments

We believe it is appropriate for S&T/POP to take the lead role in developing a viable quality assurance program. Some additional costs may be necessary, but efforts should be made to minimize any increases by having the recipients of the donated commodities share the burden of ensuring the integrity of the products they receive. In addition, revenues from sales of commodities should be redirected, in part, to finance this essential project activity which would not add to the budget requirements.

6. A System Is Needed to Properly Record and Report Disposals and Losses of Contraceptives

A.I.D. Handbook 15, Chapter 10 requires borrower/grantees to maintain records to ensure that commodities financed by A.I.D. are properly accounted for and appropriately used. Although recipient governments generally had procedures for tracking commodity disposals and losses, these procedures were not routinely or systematically followed and did not necessarily include A.I.D. participation. There was often no record and/or reporting of disposals and losses to the applicable Mission or to CPSD or formalized procedures for filing claims for commodities lost. These conditions existed because CPSD never established formal procedures for recording and reporting commodity disposals and losses and claims. As a result, A.I.D. managers were unaware of the large quantities destroyed or lost and could not establish the extent of such waste. Because of the absence of control, program managers were unable to identify the causes of disposals and losses for possible corrective action and ensure that claims were filed against responsible parties.

Recommendation No. 6

We recommend that the Bureau for Science and Technology, Directorate for Population, Commodity and Program Support Division establish and implement procedures for recording and reporting contraceptive disposals and losses, as well as instructions for filing refund claims.

Discussion

A.I.D. Handbook 15, Chapter 10, addresses commodity accountability in general. It requires under both project and nonproject assistance, that Borrower/Grantees maintain a system of records documenting the disposition of commodities financed by A.I.D. It further indicates that

Mission approval is needed to dispose of project commodities. In the event commodities are not used for their intended programs, A.I.D. may have the basis for a claim against the responsible party.

Disposals and losses have different causes and solutions and need to be handled separately. Disposals are usually authorized destructions of stock that is no longer useful because it has expired, deteriorated while in storage, or found to be defective upon receipt. Thus, reasons for disposal may suggest possible causes and solutions that are important to local and central managers. For example, a high incidence of expired contraceptives suggests that too many products were ordered or that distribution systems were ineffective. Deterioration while in storage suggests poor storage conditions or mishandling of stock. Defective upon receipt might suggest poor manufacturing or mishandling during shipment.

Losses, on the other hand, are primarily waste and cost control problems. Losses reduce the commodities available for distribution and can occur at any point in the distribution chain after manufacture. Losses, for example, can occur during shipment, while in storage, through pilferage, or through the unwarranted diversion of stock.

Most of the countries visited had procedures for handling losses and disposition of expired, unfit, or obsolete medical products and devices including contraceptives. However, procedures in several countries did not require Mission approval for disposal or the presence of a Mission representative at the time of disposal or reporting of either losses or disposals to appropriate levels of management including A.I.D. Moreover, procedures were not always followed and records were not maintained for all disposals and losses. There was no evidence that CPSD had established procedures requiring a determination as to responsibility for the commodities lost, or had provided for possible reimbursement claims to be filed.

In Pakistan, for example, the Mission had established a procedure in which all spoiled/unfit products were sent to the central warehouse for destruction. A certificate of destruction certifying the quantity destroyed and the date of destruction was required. Representatives from the Government of Pakistan and USAID/Pakistan were to witness the destruction and sign the certificate.

The public sector program followed these procedures. However, the private sector firm that managed the Social Marketing Program was unaware of the destruction procedures. Condoms that did not pass the visual inspection or vacuum test for packaging were simply discarded and no record was kept of these disposals. Had disposals been recorded and reported, managers at both USAID/Pakistan and CPSD would have been aware of the several quality control problems associated with the Social Marketing Program. Also, the condoms destroyed were considered distributed (used) in the inventory records and estimates of future commodity needs were based on this inaccurate data.

Inventory control procedures in Zimbabwe were quite good. There was only one disposal for old oral pills that had been replaced by a new brand. What was missing, however, were reports of losses or disposals at the provincial or regional levels. This was true in other countries, as well. Where there were records of disposals or losses, they were at the highest levels only, implying that losses and destruction did not occur at lower levels. We were told that the general attitude among inventory managers at all levels was that reporting losses and destruction reflected badly on them. Therefore, they hesitated to make such reports.

In Mexico and Peru there were indications of black marketing activities of expired commodities which could relate to the absence of valid destruction procedures. In Mexico, Tahiti condoms which had supposedly been destroyed reportedly were for sale in the marketplace.

In Peru, the auditors were unable to locate large quantities of expired products reported to be in the warehouse; however, the auditors found expired products for sale in the marketplace.

Since only sketchy and sporadic records and reports were maintained, the audit could not establish the magnitude of such disposals and losses and possible diversions. There were strong indications that millions of dollars of contraceptives had been destroyed or lost for various reasons. For example, 9 of the 11 Missions which responded to an audit team inquiry reported that property had been destroyed, usually condoms and pills and usually because of expired shelf lifes. Bangladesh reportedly destroyed $305,789 worth of condoms and oral pills between 1984 and 1988, while Jamaica reportedly destroyed $85,536 worth of oral pills in 1987. In none of the cases were there indications that possible claims for reimbursement were being pursued.

As a percentage of the total value of contraceptives shipped, disposals, losses, and diversions probably are relatively insignificant (approximately one percent) and to be expected given the conditions in which the A.I.D. program operates. The loss of product through expired shelf lives of five years, however, is unacceptable because products are expected to be used within about a one-year period after receipt.

The haphazard way in which disposals are made and the record of disposal and losses is maintained is due to the lack of formal policy by CPSD on the disposal and loss of contraceptives. In 1987, CPSD drafted a policy on disposals which included implementing procedures and sent it to A.I.D.'s Office of the General Counsel for feedback. These procedures did not address the filing of claims against parties responsible for such disposals and losses. The Office of the General Counsel had a number of concerns regarding the policy and procedures as written. Rather than resolving the issues in question, CPSD chose to keep the policy informal and undistributed except when

a specific Mission called CPSD and requested specific information regarding disposals.

The distribution of a formal policy on disposals and losses to all Missions which includes claim procedures is needed to correct the deficiencies related to the present way that disposals and losses are handled.

Management Comments

The Bureau commented that formal and uniform product disposal and loss procedures were required for good management. It agreed to keep records on disposals and losses incurred prior to delivery to host country consignees, but was uncertain about the cost effectiveness of tracking disposals and losses once the commodities had been turned over to host country consignees. It said a procedure would be set for systematic recording and reporting in cooperation with the regional bureaus. Also, it would lay out a range of options for Missions and host countries for tracking losses after shipments arrived. Finally, the Bureau said it would issue a draft disposal policy.

Office of Inspector General Comments

Most of the disposal/loss problems occur after the products get in-country. It is crucial, therefore, that any procedures formulated to address the product disposal/loss issue be comprehensive and cover products all the way from the post-production phase to the ultimate user. No mention was made in the Bureau response of the need for instructions on filing refund claims. We believe claims procedures should be covered in the issuance of the disposal/loss policy guidance.

7. **S&T/POP Should Provide for Host Countries to Assume Responsibilities for Estimating Requirements**

S&T/POP spends large sums of money for technical assistance to develop annual requirements estimates with no known plans for transferring this responsibility to recipient countries. Although technical assistance in this area has been provided for about 15 years, in some cases, most countries still were considered incapable of independently determining commodity requirements without A.I.D.-financed technical assistance. The absence of specific plans to provide for the transition of this responsibility to other governments conflicts with A.I.D.'s fundamental principle that host countries ultimately should implement their own projects and programs. Thus, A.I.D.'s finite resources are used in an uneconomical and inefficient way and without forethought as to when its technical assistance in the areas of estimating requirements can be logically terminated.

Recommendation No. 7

We recommend that the Bureau for Science and Technology, Directorate for Population, Commodity and Program Support Division develop specific plans for transferring responsibility for estimating commodity requirements to recipient countries.

Discussion

Ultimately the countries A.I.D. assists should, to the extent feasible, implement their own development programs, rather than use A.I.D. as an agent to do so. Essentially, A.I.D. functions as a planning, financing, and monitoring organization.

A.I.D.'s technical assistance in the area of developing commodity estimates is provided at substantial costs. Outside technical assistance

is provided basically under contractual arrangements with the Centers for Disease Control (CDC) and John Snow Incorporated (JSI), a private contractor. CDC, for example, has been an A.I.D. contractor for 15 years, routinely assisting about a dozen countries for 12 years, including some more sophisticated ones such as Brazil in developing their estimates of requirements for contraceptive devices. The logistics management arrangement with CDC costs A.I.D. an average of at least $1 million per year. JSI has provided a similar service during recent years at an average annual cost of around $442,000. The audit did not develop costs on A.I.D. in-house assistance which also is provided.

In some of the countries visited, the audit found that contractor technical assistance had been routinely provided for many years and that it was both unnecessary and unwanted in the areas provided, according to recipient government officials. In other countries, the technical assistance was not directed to building an institutional capability within the host governments to assume program responsibilities. The audit concern, therefore, was not with technical assistance per se, but with technical assistance contractors preparing requirements estimates for the same countries year after year with no end in sight when there are other assistance needs.

In Brazil, for example, officials of BEMFAM, the main government organization receiving contraceptives, said that technical assistance was overwhelming in terms of the number of consultants visiting that country and the period of their stay. This situation gave the appearance of consultants perpetuating their services to the extent that one official commented that A.I.D. seems to have consultants for consultants. This official also said that these numerous visits caused BEMFAM's managers to be distracted from their primary functions in the family planning area. He added that during the Contraceptive Procurement Table (CPT) preparation phase, in 1988 covering the period 1988 through 1991, BEMFAM was assisted by <u>five</u> consultants

even though, in his opinion, BEMFAM was capable of preparing the CPT with no assistance.

During the period from May 25, 1987 to November 11, 1988, family planning logistics management consultants visits alone totaled 10, which was equivalent to 145 person-days. The in-country stay of these consultants ranged from 7 to 18 days. The number of visits and corresponding number of person-days in such a short period of time appear to substantiate BEMFAM's position on the consultants issue. Further, a number of these visits were not for logistics improvements. The Cognizant Technical Officer (CTO) in CPSD said that CDC consultants spend too much time on non-logistics activities, do not consult him on their work, and their performance is not always effective. The auditors found that a large quantity of IUDs (over 150,000 units costing about $150,000) had been sitting in BEMFAM's central warehouse since mid-1986, despite repeated consultants visits to Brazil during 1987 and 1988.

In Pakistan, the Director General (Monitoring and Statistics) of the Population Welfare Division, Ministry of Planning and Development, and the USAID Program Specialist indicated that the technical assistance provided by consultants from CDC and JSI in the preparation of estimates of commodity requirements was unnecessary. Estimates developed by consultants from CDC and JSI had the same projected use figures as the CPTs prepared independently by the Government of Pakistan with the assistance of USAID/Pakistan. The Director General stated that CPSD, JSI, and CDC underestimated the capabilities of the Pakistanis by continuing to send consultants to prepare estimates of requirements. During December 1988, two consultants visited Pakistan and spent 21 person-days preparing estimates. Based on the comments expressed by officials of the Government of Pakistan and USAID/Pakistan, the need for these consultants' to prepare CPT's was highly questionable.

The audit found that CPSD also used consultants to verify the accuracy of the figures used in the country estimates of requirements. This kind of oversight by consultants with highly technical expertise is not the best use of resources. Technical consultants should teach or advise local managers in more complicated topics in logistics management such as inventory control and reporting, quality assurance, and warehousing practices.

In Peru and Thailand, the audit found that technical assistance was needed, but had to be directed to certain areas. in Peru, Ministry of Health officials stated that the technical assistance was fragmented because there was no Master Plan in place for the assistance. They indicated that a technical assistance plan was needed to integrate technical assistance efforts with the eventual goal of institution building.

In Thailand, the family planning project is terminating but it is uncertain whether the applicable Ministry has the capability to successfully continue the project without assistance from A.I.D. To complicate matters, the Royal Government of Thailand cut the 1988, 1989, and 1990 budgets requested by the Family Health Division for contraceptives resulting in commodity shortages, and funding was further diminished by substantial import duties placed on contraceptives (as high as 51 percent for condoms). According to Thai officials, additional technical assistance support was needed in: (1) logistics management training, (2) development of and training in the computerized commodity system, and (3) training of medical personnel in oral contraceptives.

In Zimbabwe, the Director of Family Planning told us that he did not need assistance estimating requirements. He said his auditors verify the inventories and usage reports. He said that he needed further assistance in more sophisticated areas like computerized inventory control and reporting.

S&T/POP advised that establishing host country expertise and self sufficiency in logistics management was more difficult than implied by the audit report and that there was a continuing need for contractors to critically review field estimates of requirements. We do not disagree with these views, but continue to believe that CPSD needs to develop country specific plans for the eventual adoption by these countries of certain commodity management related functions, particularly requirements estimating. It should evaluate the needs of countries in terms of technical assistance provided and better target such assistance to these needs. Supplying assistance to countries who neither need nor want such assistance reduces the amount of resources available for countries with definite needs.

Management Comments

The Bureau said that contractor resources would be used to develop country-specific strategic plans for the development of institutional capacity in requirements estimation and realistic time-tables for the transfer of responsibilities. S&T/POP will reorient its technical assistance to further the goal of self sufficiency on the part of recipient countries.

Office of Inspector General Comments

The actions indicated are responsive to the audit recommendation. We believe the Bureau needs only to implement its promised actions to better target its assistance and wean recipient countries off A.I.D. dependency.

Compliance and Internal Control

Compliance

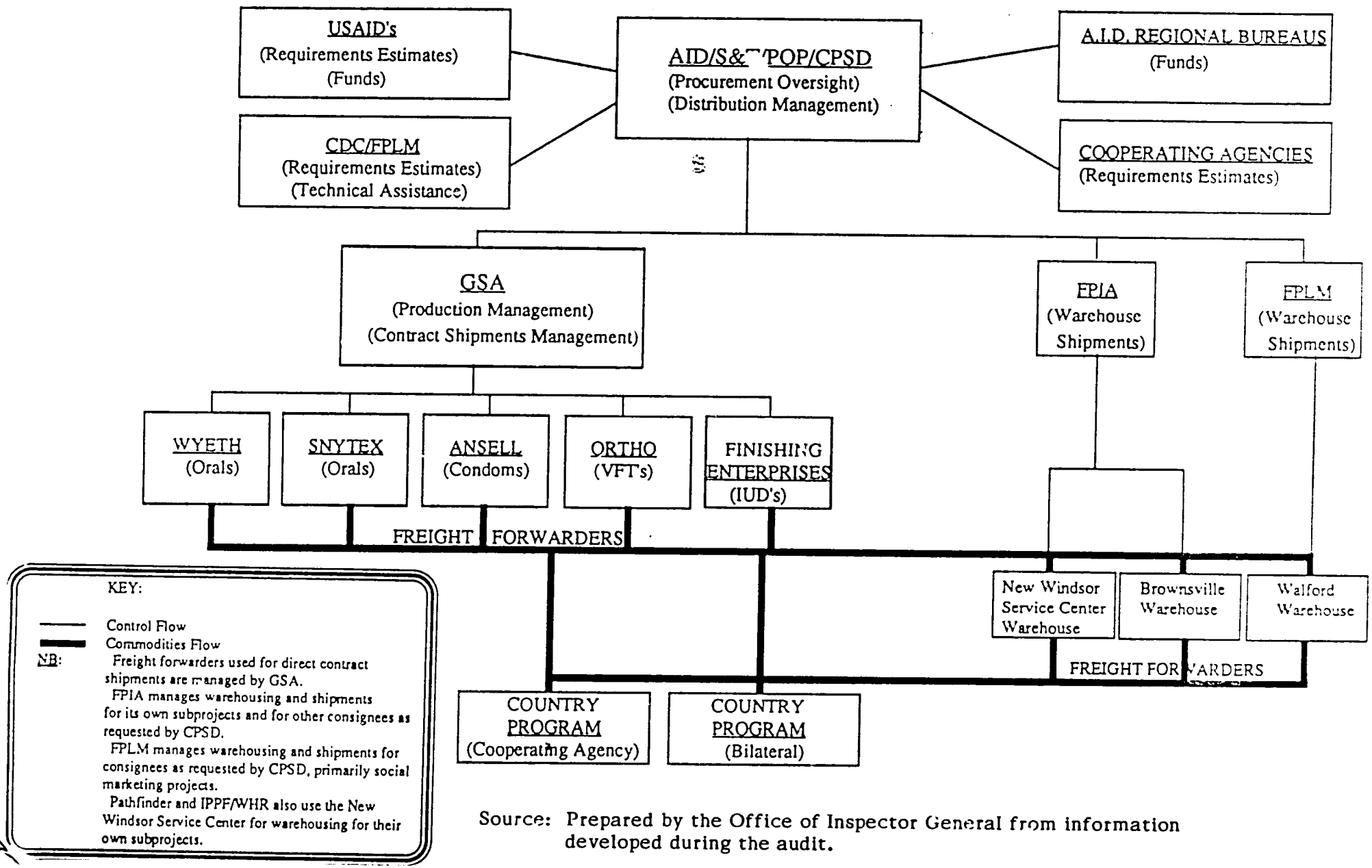
In the areas audited, some exceptions to compliance were noted. The disposition of commodities financed by A.I.D. were not properly accounted for in accordance with Handbook 15, Chapter 10, Section 10. In addition, project income was not properly segregated and used in accordance with bilateral agreements, project papers, the Foreign Assistance Act of 1971, and Handbook 13.

Internal Control

The audit disclosed several management control weaknesses. In-country inventory controls and logistical support systems were in need of improvement. A comprehensive quality control program had not been established for contraceptive commodities. The complicated funding process was not consistent with good internal control procedures. Having G.S.A. perform the procurement function has inherent weaknesses related to quality control, funding, payments and shipments, precluded A.I.D.'s development of program expertise, and limited the flexibility of program operations.

The review of compliance and internal control was limited to the finding areas discussed in this report.

A.I.D. CENTRALLY-FINANCED CONTRACEPTIVE COMMODITIES FLOW CHART



Source: Prepared by the Office of Inspector General from information developed during the audit.

EXHIBIT 1

Commodities and Program Support Division

PROJECT TITLE: Contraceptive Procurement

PROJECT NUMBER: 936-3018 CONTRACT/GRANT NUMBER: Various

PURPOSE: To provide a mechanism for consolidated purchases of centrally-procured contraceptives using central as well as bilateral/regional funds transferred by Regional Bureaus to S&T/POP's central account at the beginning of each operational year.

BENEFICIARIES: Recipients of family planning services in developing countries who are provided with safe and effective contraceptive products.

DESCRIPTION: Before the development of a central system for contraceptive procurement, purchases were made on an ad hoc basis and prices paid for products fluctuated considerably as the unpredictable timing of procurement actions, piecemeal purchases, and short lead times before expected production contributed to industry's inability to do adequate long-range forecasting. Consequently, since the mid-1970s, A.I.D. has been using a centralized funding and consolidated procurement system that aggregat. worldwide requirements of selected contraceptive commodities for annual purchases. In September 1979, an Agency-wide Task Force on Contraceptive Procurement was convened to examine the Agency's procurement practices and procedures. The Task Force's findings included a variety of recommendations on requirement estimation, reporting procedures and commodity management, and one that required the Administrator's approval. In March 1980, the Administrator approved the establishment of a central contraceptive procurement project and a system of budgeting and funds control that maintained responsibility at the USAID level for budgets and inventory management.

The central procurement system currently provides for the purchase of a low-dose oral contraceptive and a progestin-only pill for public sector programs, three combined pills for subsidized commercial sales programs, a vaginal foaming tablet and twelve condom brands with differentiated packaging for public sector and sales programs, and the Copper T 380A IUD. For additional details on formulations, brands, prices, contract terms and ordering procedures, please refer to the guidance accompanying S&T/POP's annual contraceptive procurement table package.

DURATION: 1981 through... (continuing)

SCOPE: Worldwide

CONTRACTOR/GRANTEE: Contractors may change because purchases are made on a competitive basis when possible. Current contractors include:

Syntex Laboratories, Inc.
Finishing Enterprises, Inc.
Ortho Pharmaceutical Corp.
Ansell Incorporated
Wyeth International Ltd.

AID/W PROJECT MANAGER:

Carl J. Hemmer
ST/POP/CPSD, Room 803 SA-18
Agency for International Development
Washington, D.C. 20523-1819
Telephone: (703) 875-4619

Source: Users Guide to the Office of Population, 1989

Commodities and Program Support Division

PROJECT TITLE: Population Program Development and Support

PROJECT NUMBER: 932-0502 RSSA NUMBER: STB-0502-R-HC-2052

PURPOSE: To improve program development, project design, implementation, and evaluation of population/family planning (P/FP) activities in less developed countries (developing countrys) and to provide essential family planning services and resources which cannot be provided under other projects.

BENEFICIARIES: P/FP programs and staff in developing country's that receive technical assistance (TA) to improve their ability to develop, manage, and evaluate family planning service programs; and couples who benefit from improved access to such services.

DESCRIPTION: The project finances technical assistance to develop, design, improve and evaluate P/FP projects. Technical support services are provided through a RSSA with the Centers for Disease Control (CDC); local support costs (e.g., secretarial assistance) are normally borne by the user. Specific activities include the following: (A) evaluation of contraceptive distribution systems, including community-based programs; (B) development and/or improvement of management information, contraceptive commodity reporting and service statistics systems; (C) TA for workshops for developing country personnel involved in program management, evaluation, and logistics management; (D) design and implementation of a patient flow analysis model to improve the efficiency of clinic operations; (E) contraceptive requirement analysis; (F) design, implementation, and/or analysis of contraceptive prevalence surveys; (G) evaluation of the completeness and quality of overall family planning data systems; (H) demographic analysis; (I) workshops and studies on the epidemiology of fertility control and pregnancy outcome; and (J) studies on the health and demographic impact of family planning activities and fertility control behavior.

DURATION: October 1985 - Continuing

SCOPE: Worldwide. During FY 88 CDC consultants provided technical support services in a variety of population/family planning areas to programs and organizations in 33 countries.

CONTRACTOR/GRANTEE:

Division of Reproductive Health
Center for Health Promotion and Education
Centers for Disease Control (CDC)
1600 Clifton Road, N.E.
Atlanta, GA 30333

Attention: Dr. Leo Morris
Telephone: (404) 329-3056
Telex: 549571 CDC ATL
Panafax: (404) 236-3296

AID/W PROJECT MANAGER:
John Paul James
ST/POP/CPSD, Room 803 SA-18
Agency for International Development
Washington, D.C. 20523-1819
Telephone: (703) 875-4619

Source: Users Guide to the Office of Population, 1989

EXHIBIT 4

Commodities and Program Support Division

PROJECT TITLE: Family Planning Logistics Management

PROJECT NUMBER: 936-3038 CONTRACT NO. DPE-3038-C-00-6064-00

PURPOSE: Improve the capability of developing country public and private sector organizations to administer more effective and efficient contraceptive logistics systems, including more reliable forecasting of contraceptive requirements, and to provide support to S&T/POP in managing the Office's Population Projects Data Base.

BENEFICARIES: Recipients of family planning services in developing countries who are provided safe and effective contraceptive products; and population and family planning organizations and cooperating agencies which need basic financial and program data on A.I.D. population projects being carried out in developing countrys.

DESCRIPTION: The Centers for Disease Control in Atlanta (CDC) has been providing technical assistance in contraceptive supply management since 1974. This project complements and expands CDC work in this area. The contractor, John Snow, Inc. (JSI) collaborates with CDC and assists ST/POP/CPSD, USAID Missions, and developing country public and private sector Family Planning organizations to carry out the following principal activities: 1) review and analyze estimates of contraceptive requirements for service delivery programs in each developing country; 2) evaluate and assist in designing and/or improving developing country FP logistics systems; 3) introduce simplified clinic, community-based, and warehouse management information systems; 4) conduct regional and in-country workshops on FP logistics; 5) receive, store, and ship contraceptive supplies to developing country organizations; 6) develop three regional technical assistance and training centers in Africa, Asia and Latin America; 7) assist USAID Missions in preparing annual Contraceptive Procurement Tables; 8) continue development of ST/POP/CPSD's computerized tracking system for centrally procured contraceptive commodities; 9) develop a microcomputerized P/FP Donor Contraceptive Information System; and 10) manage S&T/POP's Population Projects Data Base.

DURATION: September 1986 - September 1991

SCOPE: Worldwide. During FY 88, logistics consultants provided technical assistance to population and family planning organizations in 26 countries.

CONTRACTOR:

John Snow, Inc.
1100 Wilson Boulevard
Arlington, Virginia 22209

Attention: Mr. Richard Owens
Telephone (703) 528-7474
Telex: 272896 JSIW UK
Panafax: (703) 528-7480

AID/W PROJECT MANAGER:

John Paul James
ST/POP/CPSD, Room 803 SA-18
Agency for International Development
Washington, D.C. 20523-1819
Telephone: (703) 875-4619

Source: Users Guide to the Office of Population, 1989

EXHIBIT 5

CONDOM SHIPMENTS WORLDWIDE - 1988 MAJOR RECIPIENTS BY REGION

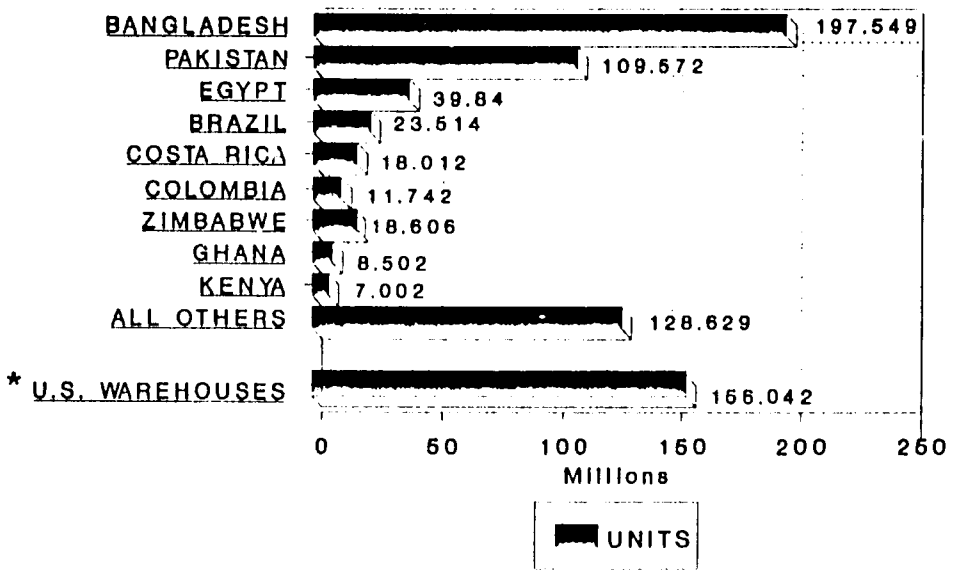
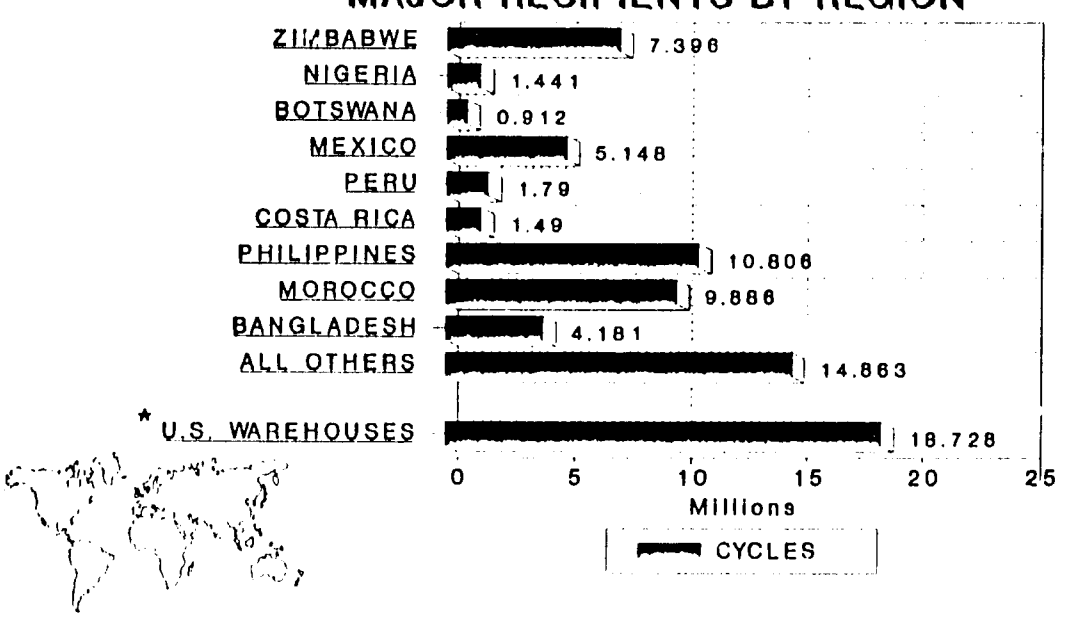


EXHIBIT 6

ORAL PILL SHIPMENTS WORLDWIDE - 1988 MAJOR RECIPIENTS BY REGION



Source: Information obtained from the NEWVERN INFORMATION SYSTEM, May 25, 1989, Family Planning Logistics Management Project.

*Represents commodity shipments from factories to U.S. warehouses. Subsequent CPSD-initiated shipments from these warehouses are also included in the country amounts shown above. Shipments for cooperating agency programs are not included in the country amounts.

EXHIBIT 7

IUD SHIPMENTS WORLDWIDE - 1988
MAJOR RECIPIENTS BY REGION

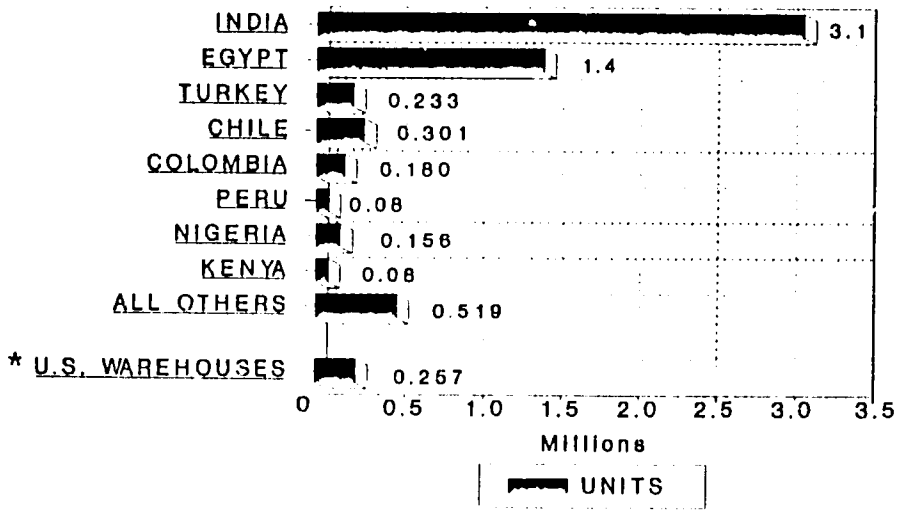
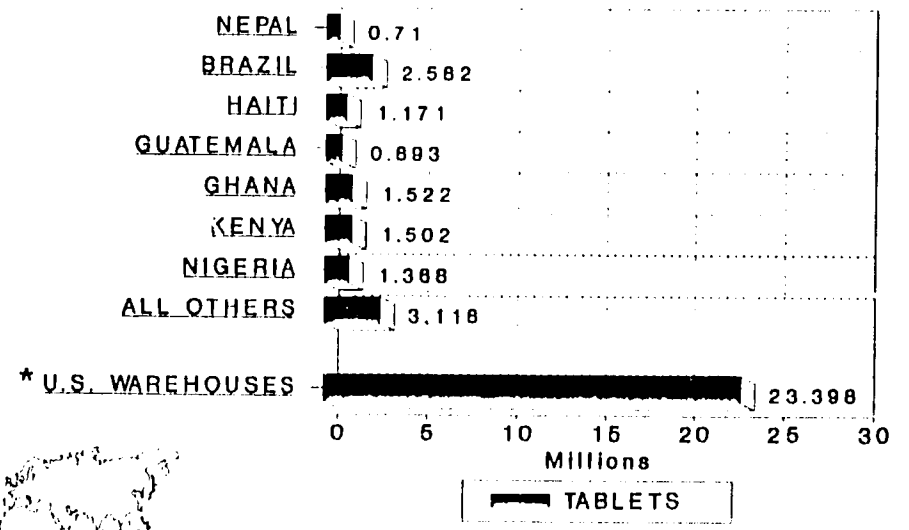
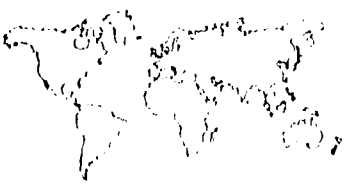


EXHIBIT 8

VAGINAL FOAMING TABLET SHIPMENTS WORLWIDE - 1988
MAJOR RECIPIENTS BY REGION





Source: Information obtained from the NEWVERN INFORMATION SYSTEM, May 25, 1989, Family Planning Logistics Management Project.

*Represents commodity shipments from factories to U.S. warehouses. Subsequent CPSD-initiated shipments from these warehouses are also included in the country amounts shown above. Shipments for cooperating agency programs are not included in the country amounts.

AGENCY FOR INTERNATIONAL DEVELOPMENT
WASHINGTON, D.C. 20523

SENIOR ASSISTANT ADMINISTRATOR

SEP 1 1989

MEMORANDUM

TO: IG/PSA, Mervin F. Boyer, Jr.

FROM: S&T, N. C. Brady

SUBJECT: Draft Audit Report, An Overview of the Centrally Funded Contraceptives Procurement Project: A.I.D. Comments

As a preface to the comments which are provided below for inclusion in your final report, we urge that the final report be addressed to the Acting Administrator, Mr. Mark Edelman, rather than to my office. The contraceptive procurement project is implemented by S&T/POP for A.I.D. as a whole. Through this project, S&T/POP aggregates A.I.D.-wide procurement activity to achieve overall efficiences and cost-savings. However, S&T/POP implementation of the project is subject to budget decisions and procedural policies set elsewhere in A.I.D. The Bureau lacks basic authority to implement major recommendations of the report that concern these areas. To ensure that A.I.D. attention to the findings and recommendations of the report is coupled with the authority to implement needed systemic remedies, the report should be directed to the Acting Administrator of A.I.D.

Comments

The Bureau for Science and Technology strongly concurs in the overall findings and recommendations of the auditors' report on contraceptive procurement. The report underlines the programmatic importance of contraceptive procurement for A.I.D.-supported population programs and accurately describes the broad scope and administrative complexity of the procurement actions for which the Bureau is responsible. A.I.D. provides up to 85 percent of all contraceptive assistance to family planning programs in more than 80 developing countries. In support of the expansion of family planning programs, A.I.D. contraceptive procurement has also grown rapidly. In FY 88, procurement totalled $43 million; in FY 89, the total will surpass $65 million.

The audit team conducted a very thorough and comprehensive review of the current structure and implementation of contraceptive procurement and worked closely with Bureau staff to ensure an accurate and solution-oriented definition of current procurement problems. The flow chart provided in Exhibit 1 of the report shows, in summary form, the complex institutional relationships that contraceptive procurement involves. The day-to-day reality is far more complex. We believe that the findings and recommendations clearly flag the critical improvements needed in contraceptive procurement. The Bureau has already made incremental improvements in the procurement process that were possible without a major reform of A.I.D.'s funding process. The auditors have noted the limited corrective actions that the Bureau has been able to initiate and have correctly urged systemic remedies for the problems uncovered.

The Bureau particularly endorses the auditors' recognition of the urgency of simplified A.I.D. funding procedures for improved contraceptive procurement. While development of an operational implementation plan will be useful, reform of a funding process that the report accurately describes as "cumbersome and complex" and "the first problem Mission directors, A.I.D. representatives, comptrollers, and population officers want to correct" is the highest priority need. The report demonstrates that central procurement cannot secure both cost savings and straightforward financial accounting when both the quantity and timing of funds transfers to support procurement occur independently of the procurement process. Current A.I.D. funding procedures for contraceptive procurement create continuing and unavoidable crises in the award and management of production contracts and scramble the financial accounts that relate funding to shipments. With growing procurement requirements, continuation of piecemeal and unpredictable funding flows for procurement are guaranteed to make a bad situation worse. The Bureau regards radical improvement of the funding process as the highest priority and an indispensable step towards a substantially improved contraceptive procurement system.

Timely and effective implementation of the recommendations in the report will, in many cases, require decisions and implementing actions by parts of A.I.D. other than the Bureau for Science and Technology. The Bureau is ready both to take all action within its power to implement the recommendations and to coordinate actions by other sections of A.I.D. For a fully adequate A.I.D. response to this important program review, it is critical that other A.I.D. offices with significant implementation roles have their roles identified in the findings and recommendations. Comments on specific recommendations and an indication of other offices that must be involved in an effective response to these recommendations are summarized below.

Recommendation 1: Development of an Operational Implementation Plan

Comment: The recommended implementation plan is a useful proposal. The plan's content, structure, and implementation presume an understanding that the S&T/POP contraceptive procurement project aggregates and carries out procurement decisions made largely outside of S&T/POP in Missions and regional bureaus. Contraceptive procurement is in no sense an open-ended activity. Its annual "ceiling" is set by the aggregate of funds set aside for contraceptive procurement in the S&T/POP budget and the segments of Mission project budgets earmarked for use in procurement.

The plan will aggregate the elements of procurement implementation normally found in a conventional Project Paper. More explicitly, the plan will systematize and specify the objectives of contraceptive procurement, the distribution of responsibilities for implementation among the broad range of A.I.D. offices and contractors involved in contraceptive procurement, and the staffing requirements for implementation of the plan.

For the most part, the purposes and procedures that the plan will assemble already exist separately in the form of established procedures and policies that guide current procurement actions. Creation of the plan will facilitate understanding of the procurement process as a whole, identify gaps in current operational procedures, and ensure a consistent and comprehensive assignment of responsibilities for procurement actions throughout A.I.D. The staffing implications of a comprehensive implementation plan are currently unknown.

Action: Drafting of plan: S&T/POP in coordination with Missions and regional bureaus.

Implementation: S&T/POP, regional bureaus, Missions; action by PM/PFM on staffing issues.

Recommendation 2: Strengthened Operational Controls.

Comment: This recommendation will be addressed in conjunction with the development of the operational implementation plan. S&T/POP already exercises control, in varying degrees, over all of the

activities cited. The need is to strengthen, expand and systematize these controls. An integral part of this task is to identify the responsibilities of each section of A.I.D. and of involved in procurement actions for control procedures since many procurement actions and procedures occur outside of S&T/POP - for example, the handling of sales proceeds or in-country storage and distribution. Strengthened controls will also require the periodic review and updating of each area of procurement operatiohns and tightened coordination of related control activities.

S&T/POP does not draw its logistics management expertise from the Contraceptive Procurement project. Hence, implementation of this recommendation will require assessment of how the Family Planning Logistics Management project (FPLM) can strengthen operational controls for the Contraceptive Procurement project. FPLM contractors are already intensely involved in improving the estimation of contraceptive requirements. With respect to the shipping problems described in the report, the new shipping contract has been designed to address all of the problems listed.

Action: Drafting of strengthened controls and implementation: S&T/POP, regional bureaus, Missions.

Recommendation 3: Transfer of Procurement Implementation to A.I.D.

Comment: There is no justification for continued contraceptive procurement through GSA; substantial cost savings and management efficiences can be achieved by transferring procurement implementation to A.I.D. Overall, GSA has provided efficient contraceptive procurement for A.I.D. for many years. GSA purchasing expertise, for example, was critical to negotiating improved quality controls in the FY 90 condom contract. However, the introduction of a six percent surcharge for GSA services forces A.I.D. to recognize that these procurement actions can be accomplished at lower cost by A.I.D. staff. SER/OP supports this view.

The procurement cycle during FY 90 requires that a decision to transfer procurement responsibilities to A.I.D. and to provide SER/OP with needed staff be made no later than the end of CY 89. The alternative is to delay implementation of this

action for another year at an estimated cost (GSA surcharge) of nearly $4 million. Due to the lead time for production contracts, a transition period - during which GSA would continue to carry responsibilities for some contracts - of up to 18 months may be required.

Decision: A/AID in consultation with SER/OP and S&T/POP.

Action: SER/OP and S&T/POP in coordination with PM/PFM; transition to be worked out with GSA.

Recommendation 4: Streamlining Procurement Funding.

Comment: This important recommendation is the key to a more efficient procurement process. The need is not for a new centrally-funded project but for an improved funding mechanism that can "finance all contraceptive commodities consistent with a centralized procurement activity." The funding process should facilitate the procurement and charging of contraceptives and link procurement clearly to country needs and minimize the paperwork required to achieve these purposes. The current process, described in the report as an "administrative nightmare", requires painfully complex financial records to link funding to the contraceptives that programs require and, often, through delays inherent to the current funding process, it jeopardizes the ability of S&T/POP to carry out needed procurements.

The solution lies in a radical streamlining of the process, with all funds intended for contraceptive procurement channeled into a central account that, in turn, will be charged for all procurement actions. Accountability will be preserved by giving missions a status-of-account report that matches the funding they provide with shipments of contraceptives they have received.

The complex nature of the issues involved and the broad range of A.I.D. offices affected requires attention and action at the highest level of A.I.D. The earliest feasible target year for change is FY 91 - for which a decision and a plan for implementation would be needed by late FY 90.

Decision: A/AID in consultation with PPC, regional bureaus, PFM/FM, and S&T/POP.

Action: PPC, Missions, regional bureaus, PFM/FM, and S&T/POP.

Recommendation 5: Implement Comprehensive Quality Control Measures.

Comment: The strengthened quality control program outlined in the recommendation is welcome and needed. Quality control at every level that contraceptives are under the control of A.I.D. is essential for the delivery of safe, reliable contraceptives in family planning programs. The program outlined will require the concurrence and cooperation of A.I.D. missions and host country recipients. The provision of adequate sampling and testing assistance will substantially increase budget requirements for this activity throughout the Agency.

S&T/POP will take the lead in developing a quality control plan that incorporates and coordinates the many quality control measures already in place with new measures required to implement the report recommendation. This plan will identify the actions within the authority of S&T/POP, those requiring Mission action, and those under the authority of host countries. A phased plan for the expansion of A.I.D.-supported actions and their expected costs will also be developed, with emphasis on actions that are likely to be most cost-effective in bringing about improved quality control.

Action: S&T/POP, PPC (funding questions), Missions (and host countries) and regional bureaus; S&T/POP coordination with FDA on testing standards.

Recommendation 6: Systematic Recording of Product Disposal and Losses.

Comment: The establishment of formal and uniform procedures for the recording of product disposal and losses is an essential requirement for good management. S&T/POP will keep records of any disposals or losses prior to the delivery of shipments to host country consignees. S&T/POP will also finalize and issue the draft disposal policy, including instructions for recording actions, and can serve as the Agency respository of information on disposal and losses. The open question is: how far would it be cost-effective for A.I.D. to track disposals and losses after commodities have been turned over to host country consignees? S&T/POP can take the lead in setting a procedure for the systematic recording of disposals and losses and, in cooperation with regional bureaus, can lay out a

range of options for Mission and host country tracking of disposals and losses after shipments have arrived.

Action: S&T/POP, regional bureaus, Missions, and cooperating agencies.

Recommendation 7: Measures to Transfer Requirements Estimation to Host Countries.

Comment: The report accurately underlines the importance of transferring logistics management skills and responsibilities to host country personnel. The recommendation calls for an acceleration and broadening of current efforts to achieve this goal. S&T/POP will use contractor resources to develop country-specific strategic plans for the development of institutional capacity in requirements estimation and realistic timetables for the transfer of responsibilities. Within this framework, S&T/POP will orient its technical assistance to further the goal of self-sufficiency and, through Mission buy-ins, it can provide support for extended periods to support the development of host country expertise.

Action: S&T/POP, regional bureaus, Missions, and host countries.

Clearances:

S&T:EChiavaroli _____ Date 8/30/89
S&T/POP:DGillespie _____ Date 8/23/89
S&T/PO:DSheldon _____ Date 8/22/89

S&T/POP/CPSD:CJHemmer:cjh:8/21/89:ext.875-4619

LIST OF RECOMMENDATIONS

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Recommendation No. 1 8

We recommend that the Bureau for Science and Technology, Directorate for Population formulate a strategic plan with specific goals, objectives and clearly defined roles, responsibilities and performance criteria to clarify managerial control over the program and assign sufficient staff to effectively implement the plan.

Recommendation No. 2 13

We recommend that the Bureau for Science and Technology, Directorate for Population take the lead role in developing effective procedures to control (a) requirements estimates, (b) contraceptive procurements, as to sizes, varieties, and colors, (c) sales proceeds, (d) transportation, warehousing, and distribution of commodities, domestically and internationally, and (e) registration of products for use in other countries.

Recommendation No. 3 26

We recommend that the Bureau for Science and Technology, Directorate for Population prepare an action memorandum to the A.I.D. Administrator recommending (a) changing the procurement function from the General Services Administration to the A.I.D. Office of Procurement, Bureau for Management, and (b) providing the staffing to carry it out.

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Recommendation No. 4 31

We recommend that the Bureau for Science and Technology, Directorate for Population prepare an action memorandum for the A.I.D. Administrator recommending the development and implementation of an improved funding mechanism for contraceptive commodities that is consistent with a centralized procurement activity.

Recommendation No. 5 36

We recommend that the Bureau for Science and Technology, Directorate for Population, Commodity and Program Support Division develop and implement a quality control program that establishes performance standards and criteria for storing, warehousing, shipping and handling commodities as well as testing contraceptives throughout the distribution system.

Recommendation No. 6 44

We recommend that the Bureau for Science and Technology, Directorate for Population, Commodity and Program Support Division establish and implement procedures for recording and reporting contraceptive disposals and losses, as well as instructions for filing refund claims.

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Recommendation No. 7 49

We recommend that the Bureau for Science and Technology, Directorate for Population, Commodity and Program Support Division develop specific plans for transferring responsibility for estimating commodity requirements to recipient countries.

APPENDIX 3

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