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OFFICE OF INSPECTOR GENERAL

AUDIT OF USAID/VIETNAM'S PROCUREMENT AND DISTRIBUTION OF COMMODITIES FOR THE PRESIDENT'S EMERGENCY PLAN FOR AIDS RELIEF

AUDIT REPORT NO. 5-440-08-007-P
JULY 7, 2008

MANILA, PHILIPPINES



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Office of Inspector General

July 7, 2008

MEMORANDUM

TO: Acting Representative USAID/Vietnam, Roger D. Carlson

FROM: Regional Inspector General/Manila, Catherine M. Trujillo /s/

SUBJECT: Audit of USAID/Vietnam's Procurement and Distribution of Commodities for the President's Emergency Plan for AIDS Relief (Report No. 5-440-08-007-P)

This memorandum transmits the Office of Inspector General's final report on the subject audit. In finalizing the report, we considered your comments to the draft report and included the comments (without attachments) in appendix II.

This report contains four recommendations intended to strengthen recordkeeping and inventory management of commodities procured and distributed for the President's Emergency Plan for AIDS Relief, as well as improve the accuracy of reporting on the "number of individuals on antiretroviral therapy". USAID/Vietnam agreed with the findings and recommendations contained in the draft report. Based on your comments and the documentation provided, we consider that final actions have been taken on Recommendation Nos. 1, 2, and 4 and a management decision has been reached for Recommendation No. 3. A determination of final action for Recommendation No. 3 will be made by the Audit Performance and Compliance Division (M/CFO/APC) upon completion of the proposed corrective actions.

Thank you for the cooperation and courtesy extended to my staff during the audit.

CONTENTS

Summary of Results	1
Background	3
Audit Objective	4
Has USAID/Vietnam procured, deployed, and warehoused its PEPFAR commodities to help ensure that intended results were achieved, and what has been the impact?	
Audit Findings	5
Recordkeeping and Inventory Management of PEPFAR Commodities Need Strengthening	7
PEPFAR Performance Results Were Not Always Reported Accurately	10
Evaluation of Management Comments	12
Appendix I – Scope and Methodology	13
Appendix II – Management Comments	15

SUMMARY OF RESULTS

During fiscal year (FY) 2007, USAID/Vietnam obligated \$15.7 million and disbursed \$6.3 million for antiretroviral drugs¹ and HIV test kits in support of the President's Emergency Plan for AIDS Relief (PEPFAR) in Vietnam. PEPFAR is the U.S. Government strategy to prevent, treat, and care for individuals with HIV/AIDS (see page 3).

The Office of Inspector General conducted this audit as part of its FY 2008 audit plan to determine whether USAID/Vietnam procured, deployed, and warehoused its PEPFAR commodities to help ensure that intended results were achieved, and to determine the impact of these efforts (see page 4).²

The audit concluded that USAID/Vietnam procured, deployed, and warehoused its commodities to help ensure that intended results were achieved. The mission's efforts made a substantial impact by helping people with HIV/AIDS live longer and healthier lives (see page 5). Specifically, the mission's use of PEPFAR funds helped 8,991 individuals who were on antiretroviral therapy³ as of September 30, 2007, which was 120 percent of the mission's target of 7,500 individuals. The target was exceeded because the mission's primary procurement partner was able to buy more drugs to treat more individuals than originally planned when it bought generics at much lower costs (see page 6).

Despite USAID/Vietnam's achievements, the mission could help strengthen recordkeeping and inventory management of PEPFAR commodities at storage warehouses and health facilities in Vietnam. A number of discrepancies were discovered in the mission's recordkeeping and drug inventory counts. Inaccurate recordkeeping could affect the amount of drugs ordered at each health facility and could lead to stock-outs, shrinkage, and waste (see page 7).

Additionally, PEPFAR performance results from the health facilities were not always reported accurately to USAID. Specifically, discrepancies were found in the "number of individuals on antiretroviral therapy," a key PEPFAR performance indicator. These discrepancies increased the risk that reported data may not provide an accurate reflection of performance results and that target-setting may use invalid and unreliable data (see page 10).

This report made four recommendations to help strengthen recordkeeping and inventory management of PEPFAR commodities, as well as improve the accuracy of reporting on the "number of individuals on antiretroviral therapy" (see pages 9 and 11). USAID/Vietnam agreed with the findings and recommendations contained in the draft

¹ Antiretroviral drugs are commonly referred to as ARV drugs, or ARVs.

² For purposes of this audit, PEPFAR commodities are defined as products purchased with PEPFAR funding for the prevention and treatment of HIV/AIDS, including test kits, lab equipment, lab supplies, and essential antiretroviral drugs and medicines used to prevent and treat HIV/AIDS-related opportunistic infections. PEPFAR commodities will be referred to as "commodities" throughout this report.

³ Antiretroviral therapy is commonly referred to as ART.

report. Based on a review of the mission's comments, detailed actions, and subsequent supporting documents received, the Office of Inspector General determined that final actions have been taken on Recommendation Nos. 1, 2, and 4 and a management decision has been reached for Recommendation No. 3. A determination of final action for Recommendation No. 3 will be made by the Audit Performance and Compliance Division (M/CFO/APC) upon completion of the proposed corrective actions (see page 12).

USAID/Vietnam's written comments on the draft report are included in their entirety (without attachments) as appendix II to this report.

BACKGROUND

In May 2003, Congress enacted legislation to fight HIV/AIDS globally through the President's Emergency Plan for AIDS Relief (PEPFAR). Although PEPFAR originally planned to provide \$15 billion over 5 years for the prevention, treatment, and care of individuals with HIV/AIDS,⁴ \$18.8 billion has been committed through January 3, 2008, with 58 percent allocated to programs in 15 focus countries.⁵ In addition, President Bush has requested that Congress reauthorize PEPFAR for \$30 billion dollars over 5 additional years.

The Office of the Global AIDS Coordinator (Coordinator) at the Department of State oversees accountability for the results of PEPFAR. The Coordinator manages all U. S. Government (USG) international HIV/AIDS assistance and approves and coordinates the efforts of the participating agencies and departments. PEPFAR funds are appropriated to the Department of State. A portion of the funds is allocated or transferred to USAID, with USAID assigned certain aspects of implementation. The Coordinator also issues annual guidance concerning country operational plans and mandatory targets.

In September 2005, USAID contracted with the Partnership for Supply Chain Management (the Partnership) to procure commodities for the care and treatment of HIV/AIDS and related infections, and to provide related technical assistance. This centrally managed contract is an indefinite quantity contract with a maximum ceiling price of \$7 billion. USAID/Washington's contracting officer issues task orders against the contract as needs become defined. The first task orders issued call for up to \$652 million over 3 years to procure and distribute antiretroviral drugs and other needed commodities, and to provide technical assistance for supply chains. Missions access the task orders by allocating mission funding to the contract. The task orders have estimated completion dates of September 29, 2008.

In March 2004, the Government of the Socialist Republic of Vietnam (Government of Vietnam) released the National Strategic Plan on HIV/AIDS Prevention for 2004–2010 with a Vision to 2020 (National Strategic Plan). The strategy provides the framework for a comprehensive national response to the epidemic, calling for mobilization of government and community-level organizations across multiple sectors. In June 2004, Vietnam became the 15th focus country of PEPFAR.

As of September 30, 2007, USG departments and agencies had procured nearly \$111 million in commodities through the contract with the Partnership. About \$6.3 million, or 6 percent, of these commodities were procured by USAID/Vietnam through the first task

⁴ The human immunodeficiency virus (HIV) causes acquired immunodeficiency syndrome (AIDS), which is the final stage of HIV infection. Although, there is no cure for AIDS at this time, antiretroviral therapy suppresses the replication of the HIV virus in the body and can significantly prolong and improve the quality of life.

⁵ The 15 focus countries are Botswana, Côte d'Ivoire, Ethiopia, Kenya, Mozambique, Namibia, Nigeria, Rwanda, South Africa, Tanzania, Uganda, Zambia, Guyana, Haiti, and Vietnam.

order described above.⁶ The Partnership's Supply Chain Management System in Vietnam managed procurement and distribution of such commodities.

The United States Embassy/Hanoi's PEPFAR Team⁷ worked in partnership with the Government of Vietnam, international organizations, and nongovernmental organizations to implement comprehensive HIV prevention, treatment, and care programs in line with the National Strategic Plan. In August 2005, the Government of Vietnam started providing PEPFAR-funded antiretroviral therapy services at its public health facilities.

At the time of the audit,⁸ USAID/Regional Development Mission Asia's Office of Public Health managed PEPFAR commodities in Vietnam through its offices in Bangkok and Hanoi. As of September 30, 2007, USAID had obligated \$15.7 million and disbursed \$6.3 million for PEPFAR commodities in Vietnam. On March 20, 2008, USAID established the Office of the USAID Representative in Vietnam (USAID/Vietnam), reporting directly to USAID's Asia Bureau in Washington. On the same date, USAID/Vietnam took responsibility for all USAID bilateral programs in that country, including management of USAID-funded activities under PEPFAR.

AUDIT OBJECTIVE

The Office of Inspector General conducted this audit as part of its fiscal year 2008 audit plan to answer the following question:

Has USAID/Vietnam procured, deployed, and warehoused its PEPFAR commodities to help ensure that intended results were achieved, and what has been the impact?

This audit was part of the Office of Inspector General's multicountry audit of USAID's procurement and distribution of PEPFAR commodities in Côte d'Ivoire, Mozambique, Haiti, and Zambia.

Appendix I contains a discussion of the audit scope and methodology.

⁶ These figures were unaudited.

⁷ United States Embassy/Hanoi's PEPFAR Team was composed of staff from the State Department, Centers for Disease Control and Prevention, Department of Defense, and USAID.

⁸ Audit fieldwork was conducted from February 19 to March 13, 2008.

AUDIT FINDINGS

USAID/Vietnam procured, deployed, and warehoused its President's Emergency Plan for AIDS Relief (PEPFAR) commodities to help ensure that intended results were achieved. Additionally, the mission provided PEPFAR antiretroviral drugs that made a significant impact by helping people with HIV/AIDS live longer and healthier lives. Specifically, the mission achieved the following:

Procured – In fiscal year (FY) 2007, USAID/Vietnam procured about 96 percent of its planned procurement of commodities reported in the 2006 country operational plan. The mission budgeted \$6.6 million to procure antiretroviral drugs and HIV test kits, and it procured \$6.3 million worth of these commodities.⁹

Deployed – Commodities were deployed first to the Partnership's Supply Chain Management System subcontracted warehouses in Hanoi and Ho Chi Minh City. The Supply Chain Management System then distributed the commodities to the Government of the Socialist Republic of Vietnam's (Government of Vietnam) public health facilities. The Supply Chain Management System and the health facilities regularly inspected the quality of these commodities for patient care. At the warehouses and health facilities tested, staff reported that antiretroviral drugs and lab supplies were available when needed. At the seven selected health facilities visited that provided antiretroviral therapy, the availability of HIV test kits, laboratory equipment, lab supplies, and antiretroviral drugs helped individuals on antiretroviral therapy as of September 30, 2007, as shown in table 1 below.

Table 1: Number of Individuals on Antiretroviral Therapy at Facilities Visited

Health Facilities Visited By the Audit Team	Location	Individuals on Antiretroviral Therapy ¹⁰
1. Tay Ho District outpatient clinic	Hanoi	152
2. Cam Pha outpatient clinic	Quang Ninh	287
3. Quang Ninh General Hospital outpatient clinic	Quang Ninh	568
4. District 8 outpatient clinic	Ho Chi Minh City	398
5. Bin Thanh District outpatient clinic	Ho Chi Minh City	639
6. Thu Duc District outpatient clinic	Ho Chi Minh City	477
7. An Hoa, District 6 outpatient clinic	Ho Chi Minh City	480
Total		3,001

⁹ The planned figure represents the amount reported in Vietnam's FY 2006 country operational plan for the Partnership for Supply Chain Management (the Partnership), the mission's primary commodity procurement partner. The procured amount was reported by the Partnership, and was unaudited.

¹⁰ Some of the numbers of individuals on antiretroviral therapy were subsequently adjusted based on the Office of Inspector General's audit testing of detailed records at the selected health facilities.

Warehoused – At the seven health facilities and the three warehouse facilities visited, storage conditions generally met the standards set by the Government of Vietnam’s Ministry of Health and the World Health Organization. The warehouse facilities each received an ISO 9001:2000 certification for quality management from the International Organization for Standardization, the world’s largest, internationally recognized standards-setting and accreditation body.



Photograph of PEPFAR antiretroviral drugs stored in a modern warehouse in Hanoi, Vietnam (Office of Inspector General, February 2008).

Intended Results – Although the Office of the Global AIDS Coordinator has not established any required indicators related to the procurement, deployment, or warehousing of commodities, a related indicator “the number of individuals on antiretroviral therapy” showed that USAID/Vietnam’s efforts have achieved substantial results in this area. Specifically, the mission’s use of PEPFAR funds contributed to 8,991 individuals who were on antiretroviral therapy as of September 30, 2007, which was 120 percent of the mission’s target of 7,500 individuals.

The target was exceeded because the Supply Chain Management System in Vietnam procured more drugs to treat more individuals than originally planned when it bought generics at much lower costs. In March 2006, the Government of Vietnam first allowed generic antiretroviral drugs into the country. In August 2006, the Supply Chain Management System delivered its first shipment of generic antiretroviral drugs. Since then, costs were reduced by about 30 percent.

Impact – USAID/Vietnam’s efforts under PEPFAR made a significant impact by increasing access to antiretroviral therapy and helping people with HIV/AIDS live longer and healthier lives. Before the Government of Vietnam’s Ministry of Health launched its national AIDS treatment program in 2003, very few people had access to life-extending antiretroviral drugs. In August 2005, the Ministry of Health started providing PEPFAR-funded antiretroviral therapy services at its public health facilities. From interviews with patients receiving antiretroviral therapy at each of the health facilities visited and other data, there was strong evidence that the antiretroviral therapy was making a positive impact. Although recent data were limited, studies conducted by Family Health International showed significant improvements in both clinical and immune status of

patients in the first 12 months following antiretroviral therapy initiation, and overall mortality rates were lower for people living with HIV/AIDS.¹¹



Photograph of a pharmacist preparing a prescription of antiretroviral drugs at a PEPFAR-supported clinic located in Ho Chi Minh City, Vietnam (Office of Inspector General, March 2008).

Despite USAID/Vietnam's achievements, the following section discusses areas where the mission could help strengthen recordkeeping and inventory management of PEPFAR commodities at warehouses and health facilities, and improve the accuracy of reporting on the "number of individuals on antiretroviral therapy" at the Government of Vietnam's health facilities.

Recordkeeping and Inventory Management of PEPFAR Commodities Need Strengthening

Summary: Management controls were to be implemented at warehouses and health facilities to ensure that PEPFAR commodities are properly safeguarded, tracked, accounted for, and used for their intended purpose. However, a number of discrepancies were discovered with recordkeeping and drug inventory counts at the warehouses and health facilities tested. They occurred primarily because of weak recordkeeping and inventory management practices. As a result, inaccurate recordkeeping could impact on the amount of drugs ordered at each health facility and could lead to stock-outs, shrinkage, and waste.

According to the Ministry of Health's policies and the Supply Chain Management System's guidance provided to warehouses and health facilities in Vietnam, management controls were to be implemented to ensure that PEPFAR commodities are

¹¹ Family Health International received PEPFAR funding from USAID/Vietnam to implement HIV/AIDS prevention, care, and treatment programs in Vietnam.

properly safeguarded, tracked, accounted for, and used for their intended purpose. However, the audit identified a number of discrepancies with recordkeeping and inventory management of PEPFAR commodities at the selected warehouses and health facilities. This issue merits reporting because it was pervasive and systemic across most of the sites visited. Discrepancies were identified at 2 of 3 warehouses and 7 of 9 health facilities visited.

Warehouses – The Supply Chain Management System in Vietnam subcontracted most of its procurement, storage, and distribution of PEPFAR commodities to Central Pharmaceutical Company #1 (Central) and some to Delta Trading and Technical Services (Delta). Central handled antiretroviral drugs, while Delta exclusively handled HIV test kits, lab supplies, and equipment. Each subcontractor had warehouse operations dedicated to PEPFAR commodities in Hanoi and Ho Chi Minh City. The audit team made site visits to both of Central’s warehouses and Delta’s warehouse in Hanoi.

Discrepancies involving antiretroviral drugs were identified at both of Central’s warehouses visited. Specifically, a shortage of 281 bottles of Efavirenz and an overage of 10 bottles of Lamivudine were discovered when comparing the Office of Inspector General’s inventory counts with warehouse records at Central’s branch in Ho Chi Minh City. Additionally at the same warehouse, an error was discovered resulting in an overstatement of 400 bottles of Efavirenz when reconciling the beginning and ending balances of Central’s monthly stock reports for July, August, and September 2007. At Central’s main warehouse in Hanoi, a spreadsheet calculation error with a unit price was identified in the July 2007 monthly stock report, resulting in an overstatement of \$155,709.

The primary causes of the inventory count and monthly stock report differences were weak recordkeeping and inventory management practices and lack of qualified or sufficient staff at Central’s warehouse in Ho Chi Minh City. According to Central, the storekeeper did not record receipt and distribution of commodities in the warehouse’s stock cards, which caused the reconciling differences. At the time of the audit, Central had only one storekeeper working at the warehouse. A supply chain expert from the Supply Chain Management System in Vietnam stated that Central should assign more qualified storekeepers at sufficient staffing levels in the warehouse. Additionally, as a contributing cause, the warehouse’s location was far (about a 1-hour drive) from Central’s main office in Ho Chi Minh City, which made it difficult for Central to provide continuous management and oversight of the commodities stored at the warehouse.

Health Facilities – Of the 9 selected health facilities we tested, 7 were outpatient clinics providing antiretroviral therapy and 2 were volunteer counseling and HIV testing sites. Of the 7 clinics providing antiretroviral therapy, 6 (86 percent) had variances in drug stock levels ranging from 2 to more than 240 pills when the Office of Inspector General’s inventory counts were compared with clinic records.

The primary causes of the stock count differences were extensive reliance on manual recordkeeping and the lack of qualified or sufficient pharmacy staff. Most of the clinics visited employed manual recordkeeping to track, manage, and report on PEPFAR commodities. PEPFAR implementing partners and clinic managers explained that the lack of an automated system increased the risk of error at these clinics. In addition, they stated that some clinics employed new and inexperienced pharmacy staff, while others did not have enough staff to handle the extensive workload that is required for manual

recordkeeping and stock management. There was also a lack of supervisory oversight of pharmacy staff to conduct spot checking of their recordkeeping.

Inaccurate recordkeeping and weak inventory management could have an impact on the amount of drugs ordered at each clinic and could lead to stock-outs, shrinkage, and waste. Additionally, the increased risk of drug stock transactions not promptly recorded, properly classified, or fully accounted for will affect the preparation of timely accounts and reliable financial and other reports.

However, at Bin Thanh District clinic in Ho Chi Minh City, the site used manual recordkeeping but implemented a strong control environment. For example, the clinic implemented procedures to (1) compare drugs received with what was ordered; (2) update and reconcile pharmacy records at the end of each day; (3) cross-check pharmacy records with the clinic's patient records; (4) open only one container of drugs at a time for dispensing; and (5) perform supervisory spot checks to ensure that clinic staff were following established procedures. As a result, the clinic's management practices were impressive and the audit found no discrepancies.

It should be noted that Bin Thanh District clinic had the highest number of individuals on antiretroviral therapy of the clinics tested, yet the site was able to successfully manage its pharmacy using manual recordkeeping. The Bin Thanh District clinic could serve as a model for other clinics to follow and adopt its best practices in recordkeeping and inventory management of PEPFAR commodities.

Although the Office of Inspector General recognizes that the Government of Vietnam manages all of the health facilities in the country and that USAID/Vietnam and its partners have limited control over how PEPFAR commodities are managed at the warehouses and health facilities, this audit makes the following recommendations to help strengthen recordkeeping and inventory management of PEPFAR commodities:

Recommendation No. 1: We recommend that USAID/Vietnam direct the Supply Chain Management System in Vietnam to provide technical assistance and monitoring as needed at its subcontracted warehouses to strengthen recordkeeping and inventory management of PEPFAR commodities.

Recommendation No. 2: We recommend that USAID/Vietnam direct the Supply Chain Management System in Vietnam to work in collaboration with PEPFAR implementing partners to provide technical assistance and monitoring as needed at the Government of Vietnam's health facilities to strengthen recordkeeping and inventory management of PEPFAR commodities by using best practices from other health facilities with strong management controls.

Recommendation No. 3: We recommend that USAID/Vietnam in collaboration with its PEPFAR implementing partners work with the Government of Vietnam to conduct an assessment of staffing requirements in the area of pharmacy management at the health facilities.

PEPFAR Performance Results Were Not Always Reported Accurately

Summary: Data quality was to be emphasized at the health facilities to ensure that performance results were reported accurately to USAID. However, discrepancies were found in the “number of individuals on antiretroviral therapy”, a key PEPFAR performance indicator. This occurred because of weak internal control procedures and uncertainty concerning what should be counted and reported for the indicator at the health facilities. As a result, the discrepancies increased the risk that USAID may use unreliable data and inaccurately report its PEPFAR performance results. The discrepancies could also affect the Supply Chain Management System’s quantity estimates when ordering drugs for the health facilities.

PEPFAR emphasizes data quality because it is explicitly evidence-based and results-oriented. PEPFAR’s emphasis on evidence and on results places data quality at the center of a program in which target setting and results reporting are closely linked.

Additionally, USAID’s Automated Directives System ADS 203.3.5.2 requires that Agency performance data reported to USAID/Washington or externally for Government Performance and Results Act reporting purposes must have a data quality assessment at some time within 3 years prior to submission. Operating units may choose to conduct data quality assessments more frequently if needed.

However, 4 of the 7 outpatient clinics tested (57 percent) had discrepancies in their “number of individuals on antiretroviral therapy” as of September 30, 2007, as shown in table 2. The “number of individuals on antiretroviral therapy” is an important performance indicator because it is one of the key performance indicators required by PEPFAR and it was used by the Supply Chain Management System in Vietnam to estimate the quantity of drugs to order for each health facility.

Table 2: Discrepancies in the Number of Individuals on Antiretroviral Therapy

Health Facilities Visited	(a) Per Clinic Pharmacy Records	(b) Per Clinic Patient Records (Reported to USAID)	(c) Difference (a) – (b)	(d) Per PEPFAR Requirements (What should be reported to USAID)	Difference (b) – (d)
Cam Pha clinic	287	284	3	287	-3
Quang Ninh General Hospital	568	569	-1	568	1
District 8 clinic	411	398	13	398	0
An Hoa District 6 clinic	481	497	-16	480	17

First, there were discrepancies between the clinics’ pharmacy and patient records, as shown in columns (a) and (b) in table 2. The clinics’ pharmacy records kept track of receiving and dispensing of antiretroviral drugs to individuals, and the clinics’ patient records contained details of treatment for individuals on antiretroviral therapy.

Discrepancies occurred between the two record books because clinic staff did not perform data reconciliations. For example, An Hoa District 6 clinic explained that its discrepancies were due to miscommunication between its pharmacy and treatment departments. The Cam Pha clinic noted a lack of coordination between its pharmacy staff and the project assistant who prepared the performance indicators report for USAID.

Second, there were differences between what was reported and what should be reported to USAID as required by PEPFAR guidance, shown in columns (b) and (d) in table 2. According to PEPFAR guidance, individuals on antiretroviral therapy who started treatment or who transferred in during the reporting period can be counted at the end of the reporting period; whereas individuals who died, stopped treatment, transferred out, or were otherwise lost during the reporting period are considered not on antiretroviral therapy at the end of the reporting period, and therefore not counted.

There was a lack of clear understanding of such reporting requirements on what should be counted and reported for the indicator. For example, An Hoa District 6 clinic included patients who stopped treatment during the month in its performance indicator report sent to USAID, but excluded these individuals in its pharmacy report. On the other hand, District 8 clinic explained that it excluded patients who stopped treatment during the month in its performance indicator report sent to USAID, but included these individuals in its pharmacy report.

Third, there was lack of supervisory review of the monthly indicator performance reports sent to USAID. Supervisory review is an important internal control because it helps ensure the propriety and integrity of performance measures and indicators, as well as the completeness and accuracy of records. The director of Cam Pha clinic acknowledged this important internal control and stated that the clinic would provide better supervision to ensure accuracy in its future reports.

These discrepancies increased the risk that reported data may not accurately reflect whether PEPFAR is achieving its objectives. Further, PEPFAR target-setting and results reporting may use invalid and unreliable data, which could affect the Supply Chain Management System's quantity estimates when ordering drugs for the health facilities.

Because the above issues point to the need for USAID/Vietnam and its partners to provide more technical assistance, monitoring, and data quality assessments at the health facilities, this audit makes the following recommendation:

Recommendation No. 4: We recommend that USAID/Vietnam in collaboration with its PEPFAR implementing partners work with the Government of Vietnam to provide technical assistance, monitoring, and data quality assessments to the health facilities in the area of data collection and reporting on PEPFAR performance indicators, with priority given to the "number of individuals on antiretroviral therapy".

EVALUATION OF MANAGEMENT COMMENTS

USAID/Vietnam agreed with the findings and recommendations contained in the draft report. Based on a review of the mission's comments, detailed actions, and subsequent supporting documents received, the Office of Inspector General determined that final actions have been taken on Recommendation Nos. 1, 2, and 4 and a management decision has been reached for Recommendation No. 3.

In response to Recommendation No. 3, USAID/Vietnam stated that a human resources assessment of staffing requirements in the Government of Vietnam was currently taking place as part of the PEPFAR activities under its 2007 Country Operational Plan. The mission anticipates that the results of this assessment will be completed by August 2008 and the results will assist the PEPFAR planning process for its 2009 Country Operational Plan, at which time the mission could take any remedial actions as required. To reach final action on this recommendation, the mission will need to complete the human resources assessment. A determination of final action for Recommendation No. 3 will be made by the Audit Performance and Compliance Division (M/CFO/APC) upon completion of the proposed corrective actions.

USAID/Vietnam's written comments on the draft report are included in their entirety (without attachments) as appendix II to this report.

SCOPE AND METHODOLOGY

Scope

The Regional Inspector General/Manila conducted this performance audit in accordance with generally accepted Government auditing standards. Those standards require that we plan and perform the audit to obtain sufficient, appropriate evidence to provide a reasonable basis for our findings and conclusions based on our audit objective. We believe that the evidence obtained provides a reasonable basis for our findings and conclusions based on our audit objective.

This audit was designed to determine whether USAID/Vietnam procured, deployed, and warehoused its PEPFAR commodities to help ensure that intended results were achieved, and what its impact has been. This report summarizes the results of audit work conducted primarily in Vietnam and at USAID's Regional Development Mission Asia in Thailand from February 19 to March 13, 2008.

USAID/Vietnam primarily used the Partnership for Supply Chain Management's (the Partnership) Supply Chain Management System in Vietnam to procure commodities, but a small number of commodities were also procured through existing cooperative agreements with Family Health International and Pact, Inc. The scope of the audit was limited to testing such commodities that were procured, deployed, and warehoused in fiscal year (FY) 2007. For purposes of the audit, commodities were products purchased with PEPFAR funding for the prevention and treatment of HIV/AIDS, including test kits, lab equipment, lab supplies, and essential antiretroviral drugs and medicines used to prevent and treat HIV/AIDS-related opportunistic infections.

Additionally, the scope included verifying the number of individuals on antiretroviral therapy as of September 30, 2007, a required key PEPFAR performance indicator related to the procurement of antiretroviral drugs.

In planning and performing the audit, we assessed the effectiveness of internal controls related to the procurement, storage, and distribution of PEPFAR commodities. These included controls over reporting the number of individuals on antiretroviral therapy and controls over antiretroviral drugs and HIV test kit storage conditions.

Methodology

To answer the audit objective, we interviewed officials from the Regional Development Mission Asia in Thailand, USAID/Vietnam, Centers for Disease Control and Prevention/Vietnam, United States Embassy/Hanoi, Vietnam's Ministry of Health, and staff from selected implementing partners and public health facilities. We reviewed relevant documentation, such as USAID/Vietnam's cooperative agreements, partners' subagreements, inventory records, financial records, mission and partners' periodic reports, trip reports, and other records showing actions taken by the mission and partners to manage PEPFAR commodities.

We conducted site visits at 3 of the 4 warehouses that received and distributed PEPFAR commodities in Vietnam during FY 2007. At the two warehouses visited in Hanoi and

one in Ho Chi Minh City, we observed storage conditions, conducted test counts of selected antiretroviral drugs and laboratory supplies, reviewed inventory records, interviewed responsible staff, and inquired as to the availability of essential medicines and laboratory supplies. A senior laboratory scientist from the Centers for Disease Control and Prevention/Vietnam accompanied the audit team to provide expertise on the storage conditions of lab supplies and equipment.

The audit team judgmentally selected 9 of the 76 health facilities, representing about 38 percent of the total dollar value of PEPFAR commodities dispensed in FY 2007. In making the selection, we considered several factors, such as the dollar value of drugs dispensed, types of health facilities (clinics, hospitals, HIV testing centers), logistical and geographical considerations, and the “number of individuals receiving antiretroviral therapy” at each health facility.

Of the 9 health facilities selected, 7 were outpatient clinics providing antiretroviral therapy and 2 were volunteer counseling and HIV testing sites. At the 7 clinics and 2 volunteer counseling and HIV testing sites visited in Hanoi, Quang Ninh, and Ho Chi Minh City, we observed conditions in the storerooms, dispensaries, and laboratories; conducted test counts of selected antiretroviral drugs, test kits, and laboratory supplies; inquired as to the availability of essential medicines and laboratory supplies; reviewed monthly reports and inventory records; and interviewed facility staff.

At the 7 outpatient clinics visited, we reviewed support for the “number of individuals on antiretroviral therapy” reported to USAID/Vietnam as of September 30, 2007. The review accounted for 3,001 individuals on antiretroviral therapy, representing 33 percent of the number reported to the mission.

We considered the following definitions and materiality thresholds to answer the audit objective:

- Commodities were considered to have been procured if at least 90 percent of the procurement funding reported in the 2006 country operational plan was used to procure PEPFAR commodities during FY 2007.
- Commodities were considered to have been deployed if products procured were distributed to storage and/or health facilities and to patients on antiretroviral therapy.
- Commodities were considered to have been warehoused if storage conditions at tested storage facilities met Vietnam Ministry of Health standards.
- The Office of the Global AIDS Coordinator has not established any required targets or indicators for measuring commodity procurement results. Therefore, for purposes of this audit, we defined intended results as the procuring, storing, and distribution of commodities planned in the 2006 country operational plan, and achievement of the required FY 2007 PEPFAR target for “the number of individuals on antiretroviral therapy.”

MANAGEMENT COMMENTS



USAID
FROM THE AMERICAN PEOPLE

VIETNAM

23 June 2007

MEMORANDUM

TO: Regional Inspector General/Manila, Catherine M. Trujillo

FROM: USAID/Vietnam Acting Representative Roger Carlson /s/

SUBJECT: **Mission Response to Audit of USAID/Vietnam's Procurement and Distribution of Commodities for the President's Emergency Plan for AIDS Relief (Report No. 5-440-08-00X-P).**

Thank you for the opportunity to respond to the draft Audit Report regarding USAID/Vietnam's Procurement and Distribution of Commodities for the President's Emergency Plan for AIDS Relief (Report No. 5-440-08-00X-P).

The stated objective of this audit was to determine whether USAID/Vietnam procured, deployed and warehoused its commodities to help ensure that intended results were achieved. While the overall appraisal was admirable, the audit team made four recommendations to strengthen record keeping and inventory management of PEPFAR commodities. USAID/Vietnam fully accepts these findings, and has taken steps to address the concerns as addressed below in response to the four audit recommendations.

Recommendation No. 1: We recommend that USAID/Vietnam direct the Supply Chain Management System in Vietnam to provide technical assistance and monitoring as needed at its subcontracted-warehouses to strengthen recordkeeping and inventory management of PEPFAR commodities.

Comments: USAID/Vietnam agrees with this recommendation. In response, a letter has been sent to Supply Chain Management Systems (SCMS) (Attachment A) directing them to complete this recommendation and has received a response from SCMS (Attachment B) that systems are now in place to improve record keeping and strengthen inventory management of PEPFAR commodities. Systematic monitoring by SCMS staff of warehouses will continue throughout the PEPFAR program.

Recommendation No. 2: We recommend that USAID/Vietnam direct the Supply Chain Management System in Vietnam to work in collaboration with PEPFAR implementing partners to provide technical assistance and monitoring as needed at the Government of Vietnam's health facilities to strengthen recordkeeping and inventory management of PEPFAR commodities by using best practices from other health facilities with strong management controls.

Comments: USAID/Vietnam agrees with this recommendation. In response, a letter has been sent to Supply Chain Management Systems (SCMS) (Attachment A) directing them to complete this recommendation and has received a response from SCMS (Attachment B) that improved recordkeeping and reporting systems are now in place in all health facilities, including Government of Vietnam's health facilities. Improved monitoring systems will allow implementing partners and SCMS staff to continually verify these recordkeeping and reporting systems on a regular basis throughout the PEPFAR program.

Recommendation No. 3: We recommend that USAID/Vietnam in collaboration with its PEPFAR implementing partners work with the Government of Vietnam to conduct an assessment of staffing requirements in the area of pharmacy management at the health facilities.

Comments: USAID/Vietnam agrees with this recommendation. As part of the PEPFAR activities under COP07, a human resources assessment of Government of Vietnam staffing requirements is currently taking place. It is expected that the results of this assessment will be completed by August, 2008 and that the results will inform the PEPFAR planning process for COP09, at which time we can take any remedial actions as required.

Recommendation No. 4: We recommend that USAID/Vietnam in collaboration with its PEPFAR implementing partners work with the Government of Vietnam to provide technical assistance, monitoring, and data quality assessments to the health facilities in the area of data collection and reporting on PEPFAR performance indicators, with priority given to the "number of individuals on antiretroviral therapy".

Comments: USAID/Vietnam agrees with this recommendation. In response, a letter has been sent to Supply Chain Management Systems (SCMS) (Attachment A) directing them take the lead in working with implementing partners and the Government of Vietnam to improve technical assistance, monitoring, and data quality assessments to the health facilities in the area of data collection and reporting on PEPFAR performance indicators. Special attention has been given to reporting accurate numbers of individuals on antiretroviral therapy without duplication. SCMS reports that an on-going dialogue has been occurring since March and that the Government of Vietnam is establishing a system for verifying its reported ART numbers. The system should be completed and tested and be available for quarterly reports starting with the 4th quarter reports of FY2008 to PEPFAR.

For further detailed information, we have attached the responses from SCMS (Attachment B) which includes their correspondence with implementing partners, health facilities, USAID, and the Government of Vietnam along with an outline of their plans to correct any remaining issues.

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