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AGENCY FOR INTERNATIONAL DEVELOPMENT
Washington, D. C. 20523

OFFICE OF THE AUDITOR GENERAL
AREA AUDITOR GENERAL - SOUTH ASIA

AUDIT REPORT
USAID/LAOS
NATIONAL HEALTH DEVELOPMENT SECTOR
PROJECT NO. 439-11-590-066

Period Covered by Audit:
March 31, 1973 to September 30, 1974.

Audit Report No. 8-439-75-54

Date Report Issued April 14, 1975

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AUDIT REPORT

USAID/LAOS

NATIONAL HEALTH DEVELOPMENT SECTOR

PROJECT NO. 439-11-590-066

I - INTRODUCTION

The National Health Development Project (NHD), No. 439-11-590-066, administered by the Public Health Division (PHD) of USAID/Laos, encompasses two subactivities: (1) the Operation Brotherhood, Inc. Project (OBI) and (2) Village Health Project. Obligations and expenditures since 1964 were \$39.9 million and \$36.1 million respectively. The overall operation was reviewed to determine whether USAID/Laos management is effectively utilizing and controlling Agency resources and to assess achievement of project goals.

II - SUMMARY

The most significant findings developed during the audit, and presented in detail in Part III are summarized below:

1. There was very little success in accomplishing the phaseout plan contained in the 1969 Operation Brotherhood, Inc. project PROP.
2. Planning documentation shows that planned accomplishments are dependent upon certain other events taking place, but definitions of the events are sometimes unclear and there appears to be no alternative plans in case the assumed events do not take place.
3. The National Health Development Project has not had a comprehensive evaluation for several years, it is likely that

little would be gained from having one now, and the time that might be spent on one at this point could be better spent in laying the groundwork for an objective evaluation a year from now.

4. Physical inventory procedures presently in use need to be extended to cover all project commodities.

It was recommended that:

A specific timetable for phaseout of OBI services should be included in (a) the PROP to be completed in the Spring of 1975, (b) the new OBI contract, and (c) the annual Project Agreement.

The National Health Development planning for the 1975 Spring Review should articulate all critical assumptions and potential obstacles to the achievement of its desired objectives, assess the degree to which they are likely to occur, and include a statement of alternative courses of action where future events are not reasonably predictable.

USAID/Laos should prepare a design for the National Health Development Project that will conform to the principles set forth in AID Manual Circular 1025.1.

Inventory procedures should be expanded to insure 100 percent annual coverage of the commodities on hand at the PHD warehouse and sub-warehouses.

III - STATEMENT OF FINDINGS AND RECOMMENDATIONS

A - PLANNING

During our review of the current Operation Brotherhood Non-Capital Project Proposal (PROP), dated August 5, 1969, we found that a six-year phaseout plan had been agreed to by USAID and OBI, presumably after consultation with the Royal Lao Government (RLG). The plan was to begin in FY 1969 and be completed in FY 1975. This plan, with OBI hospital operation phaseout and Filipino employee reduction schedules, was written into the PROP along with information that case loads had increased because of the escalation of the war during January through April 1969. This project was submitted for AID/W approval with the premise that phaseout could take place over six years even with indications that the war was causing increased patient load.

The phaseout plan as written in the PROP may have been realistic based on the information and experience available at the time. Hindsight shows that the RLG's capacity was over-estimated. In FY 1969, OBI Filipino personnel numbered 99 and that number was to be reduced to 46 by the end of FY 1974. At June 30, 1974, OBI reported 131 Filipino personnel--32 more than when the phaseout began. Six of the seven hospitals run by OBI were to be transferred to Lao operation by FY 1974; at June 30, 1974, OBI still operated six.

A new PROP is to be written in the Spring of 1975. It is assumed that it will again contain a phaseout plan in specific terms. The extent and length of hostilities could not be foreseen in 1969, but hostilities have now been halted for about two years, so it should be possible to adhere strictly to the new phaseout plan. Included among the important assumptions in the Project Logical Framework for FY 1974 is one that states, "Strong desire of PGNU to assume management of health facilities". If the first step of the phaseout is completed on schedule, it may tend to strengthen the assumed desire.

The current OBI contract was originally for the period from September 1, 1971 to July 31, 1972; the current extension expires April 30, 1975. We are told that a new, more specific contract is being written that will include a number of details on phaseout.

Recommendation No. 1

We recommend that a specific timetable for the phaseout of OBI services be included in (a) the FROP to be completed in the Spring of 1975, (b) the new OBI contract, and (c) the annual Project Agreement.

Documentation used in connection with the 1974 Spring Review contained specific phasedown and redirection plans, many of which were conditioned on certain other events taking place. Little mention was made of alternative courses of action to be followed in case the conditional events did not take place, and guidelines were not given for determining if or when the event had taken place.

As an example, a certain number of dispensaries are to be phased out in FY 1977 provided that refugee relocation activities can be completed by that time. No criteria were given for determining when refugee relocation activities could be considered to be completed for purposes of closing out individual dispensaries. Since there may be a small residue of refugees in some locations for several years, we think such guidelines are necessary.

With plans to phasedown and redirect being conditioned on certain other events taking place, we believe an assessment needs to be made of the possibility or probability of the events actually taking place. Such assessment is needed in planning for personnel and funding. Realistic assessments need to be made in the planning stages since it appears that implementation of the recently enacted Congressional Budget Act of 1974 (PL-93-344) may limit the Mission's ability to switch funding between projects without substantial justification to the Congress. If the plans contain a clear statement of alternative courses of action to be followed when anticipated events do not take place, funding changes may be more easily justified.

The depth of planning called for in the following recommendation will require more effort than has been evidenced in the past. We feel, however, that it is the minimum necessary to develop realistic plans with a good possibility of achievement, and to lay the groundwork for subsequent evaluation. Laying the groundwork for subsequent evaluation is increasingly important in view of the recommendations of the Planning, Budgeting Accounting and Reporting (PBAR) task force, and in view of the specific evaluation requirement contained in Section 702 of the Congressional Budget Act of 1974.

Recommendation No. 2

We recommend that the National Health Development Project Planning for the 1975 Spring Review articulate all critical assumptions and significant potential obstacles to the achievement of its desired objectives, assess the degree to which they are likely to occur, and include a statement of alternative courses of action where future events are not reasonably predictable.

B - EVALUATION

A review of the National Health Development Project was made in May 1974, and the resulting Project Appraisal Report (PAR) was issued in January 1975. The PAR consisted of status indicators and a project design in the form of a project logical framework. There was no indication of a comprehensive evaluation of the type outlined in M. O. 1026.1. At the time the review was made, the Mission was operating under modified evaluation procedures agreed to by the Assistant Administrator for Program and Policy Coordination. Approval of the modified procedures was rescinded in August 1974.

With the foregoing in mind, it would normally be in order for us to make a recommendation for a comprehensive evaluation but we believe the time and effort could be better spent in an assessment of current conditions, getting solid benchmarks and indicators, and in devising plans in quantitative and qualitative terms so that

an objective evaluation of results could be made in one year from now. Aside from the matter of compliance with AID directives, an annual comprehensive evaluation can provide management with information of value for utilizing its resources most effectively.

Recommendation No. 3

We recommend that USAID/Laos prepare a design for the National Health Development Project that will conform to the principles set forth in AID Manual Circular 1025.1, dated April 30, 1974.

C - COMMODITIES

We found that commodities accounted for more than half of the total \$36.1 million project expenditures from inception in 1963 to June 1974. In FY 1975 alone, commodity costs are projected to be in excess of \$2 million. Nearly all of these commodities flow through the medical supply warehouse at That Luang, Vientiane.

The approximate value of stock on hand at the main Public Health Division warehouse is \$1.5 million for 5,600 line items, of which \$1 million and 4,800 line items represent recurring medical items. The remaining items are equipment and non-medical supplies. The stock record system is kept manually.

Physical inventories are taken on a cyclical basis. The items chosen for verification are taken as grouped in the Federal Stock Catalogue. Choice of the group to be inventoried during a particular month is made at the beginning of the month by the Medical Supply Administrator and the head of the inventory team. Particular attention is given to highly pilferable items, but there is no system used to assure that all groups of items are inventoried over a year or any other period of time.

It is considered sound business practice to take a complete physical inventory annually where the value of the inventory is substantial. This should be done at the Public Health Division

warehouse. All that would be required to do this is use of the present cycle inventory system while making sure that every line item is counted once during each calendar year. Assuming 5,600 line items and 250 work days per year, this would mean counting an average of about 22 line items per day. We agree with the present practice of frequent counts for highly pilferable items. Increasing the number of line items counted per day to 26 would allow for 1,000 line items to be counted twice during the year, or 500 to be counted four times, or any other combination deemed suitable.

There are two subwarehouses for medical supplies, one in Ban Xon and one in Pakse. For our review, we visited the one in Ban Xon which supplies the USAID-run hospital and 55 dispensaries in that area. This warehouse carries about 2,000 line items valued at approximately \$150,000. There is an American supervisor and a staff of eight local employees. Stock record cards are kept the same way as in the main warehouse in Vientiane. However, no inventory is taken either cyclical or total, on a regular basis. We believe the cycle inventory system should be used for the two subwarehouses. As in the case of the warehouse in Vientiane, the counting of a very few line items each day would give complete coverage annually for all items and more frequent coverage for critical items. With the planned reduction in the number of dispensaries to be served by these warehouses, local personnel should have time for this work.

Recommendation No. 4

We recommend that inventory procedures be expanded to insure 100 percent annual coverage of the commodities on hand at the Public Health Division warehouse and subwarehouses.

IV - BACKGROUND AND SCOPE

The Village Health Program and Operation Brotherhood projects, the subjects of this report, were established in FY 1964. Stated objectives are to (a) provide basic medical care to the rural populace at the village level, (b) provide medical services to the large number of refugees resulting from the aggressions of the Communists, (c) provide health services to the Lao people in certain urban locations, (d) train Lao nationals in established hospital and dispensary facilities to help meet the increasing population's need for improved medical and health care, and (e) continue to work toward the integration of management and operation of medical facilities and public health services of Operation Brotherhood, Inc. into a viable RLG National Health System, administered and staffed by RLG personnel.

The audit covered the period from March 31, 1973, the prior audit cutoff date, to September 30, 1974 and included tests of accounting and financial records, warehouse procedures and controls, and discussions with responsible USAID officials. Other than a one-day visit to the hospital, three dispensaries, and medical supply subwarehouse in Ban Xon, the audit was limited to operations in Vientiane Province. The audit did not include a detailed review of the Operation Brotherhood, Inc. contract costs.

NATIONAL HEALTH DEVELOPMENT SECTOR
PROJECT NO. 439-11-590-066

EXHIBIT A

Financial Status of Project Audited
 July 1, 1963 through September 30, 1974
 (In Thousands)

	<u>Obligation</u>	<u>Expenditure</u>	<u>Balance</u>
<u>Dollar Assistance</u>			
Personnel Costs	\$ 11,206	\$ 10,556	\$ 650
Participants	186	160	26
Commodities	19,579	17,002	2,577
Other Costs	<u>2,118</u>	<u>1,767</u>	<u>351</u>
Total Dollar Assistance	<u>\$ 33,089</u>	<u>\$ 29,485</u>	<u>\$ 3,604</u>
<u>Local Currency Assistance</u>			
Personnel Costs	K1,512,936	K1,467,867	K45,069
Commodities	237,823	217,553	20,270
Other Costs	296,895	272,277	24,618
Hospital Income	<u>(100,300)</u>	<u>(100,300)</u>	<u>-</u>
Total Local Currency Assistance	<u>K1,947,354</u>	<u>K1,857,397</u>	<u>K89,957</u>
Dollar Equivalent	<u>\$ 6,797</u>	<u>\$ 6,649</u>	<u>\$ 148</u>
Total Assistance	<u>\$ 39,886</u>	<u>\$ 36,134</u>	<u>\$ 3,752</u>
Prior Audit Coverage		<u>\$ 31,130</u>	
Expenditure Coverage in this Report		<u>\$ 5,004</u>	
Conversion Rates:	Prior to 4/8/72 = \$1 = K240		
	After 4/8/72 = \$1 = K605		

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Director	1
AD/FIN	10
<u>AG/SA</u>	
Area Audit Office	5
Vientiane Residency	5

List of Recommendations

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