

# SIGAR

**Special Inspector General for  
Afghanistan Reconstruction**

**SIGAR Audit 13-17**

Health Services in Afghanistan: USAID Continues  
Providing Millions of Dollars to the Ministry of Public  
Health despite the Risk of Misuse of Funds



SEPTEMBER  
2013

# SIGAR

Special Inspector General for  
Afghanistan Reconstruction

## WHAT SIGAR REVIEWED

In July 2008, USAID and the MoPH signed an implementation letter establishing the \$236 million PCH program. The program, which began in November 2009, supports the MoPH in its delivery of health services to local Afghan clinics and hospitals. The MoPH uses USAID provided funds to contract with nongovernmental organizations to provide basic health care in 13 provinces and hospital services in 5 provinces.

The objectives of this audit were to determine the extent to which (1) USAID assessed the financial management capability of the MoPH and (2) cost estimates for the PCH program were developed appropriately.

To accomplish these objectives, SIGAR reviewed USAID policies, including USAID and third party assessments of the MoPH; interviewed USAID and MoPH officials; and examined documentation on funds obligated and disbursed for the PCH program.

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September 2013

**Health Services in Afghanistan: USAID Continues Providing Millions of Dollars to the Ministry of Public Health despite the Risk of Misuse of Funds**

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SIGAR AUDIT 13-17

## WHAT SIGAR FOUND

Despite financial management deficiencies at the Afghan Ministry of Public Health (MoPH), the U.S. Agency for International Development (USAID) continues to provide millions of U.S. taxpayer dollars in direct assistance with little assurance that the MoPH is using these funds as intended. Specifically, USAID's April 2012 assessment of the MoPH's financial management capability identified significant internal control deficiencies that put U.S. funds provided under the Partnership Contracts for Health (PCH) program at risk of waste, fraud, and abuse. For example, the assessment found deficiencies in the MoPH's internal audit, budget, accounting, and procurement functions. USAID officials stated that they have not verified what, if any, actions the MoPH has taken to address these deficiencies. Rather, a USAID official told SIGAR that USAID has no obligation to address the deficiencies identified or to verify any corrective actions that the MoPH may have implemented for the ongoing PCH program. In SIGAR's view, USAID's decision to continue disbursing funds to the MoPH with little to no assurance that these funds are safeguarded from waste, fraud, and abuse raises serious concerns about the integrity of the PCH program.

USAID provided \$236 million for the PCH program based on a cost estimate that the MoPH developed, but which USAID did not independently validate. Specifically, USAID did not prepare a comprehensive analysis of the actual cost for the PCH program using key factors such as, among other things, patient load, population statistics, existing infrastructure, and security. USAID officials stated that the estimate was based on historical data, but they could not provide documentation showing how the estimate was calculated. More than \$190 million of the \$236 million provided for the PCH program has been obligated. However, SIGAR's review found that about \$127 million has actually been spent, resulting in potential excess obligations of about \$63 million.

## WHAT SIGAR RECOMMENDS

SIGAR recommends that the USAID Mission Director (1) provide no further funding to the PCH program until program cost estimates are validated as legitimate; (2) develop, in coordination with the MoPH, a comprehensive action plan to address deficiencies identified in the April 2012 ministry capability assessment, establish key milestones to monitor progress in executing this action plan, and make additional funding for the PCH program contingent upon the successful completion of established milestones; and (3) validate the funds obligated and expended under the PCH program since its inception and de-obligate any excess funds and return the funds to the U.S. Treasury or put these funds to better use.

SIGAR received comments on a draft of this report from USAID non-concurring with the first recommendation, partially concurring with the second recommendation, and concurring with the third recommendation. USAID stated that the safeguards it has put in place within MoPH protect taxpayer funds from misuse. However, strong evidence exists that funds provided to MoPH are at risk of misuse. In particular, both USAID and third party assessments of the MoPH have concluded that MoPH's systems, operations, and internal controls to manage donors' funds cannot be relied upon without substantial corrective measures being taken.



**SIGAR** | Office of the Special Inspector General  
for Afghanistan Reconstruction

September 5, 2013

The Honorable John F. Kerry  
U.S. Secretary of State

The Honorable James B. Cunningham  
U.S. Ambassador to Afghanistan

Dr. Rajiv Shah  
Administrator, U.S. Agency for International Development

Mr. William Hammink  
USAID Mission Director for Afghanistan

This report discusses the results of SIGAR's audit of the U.S. Agency for International Development's (USAID) assessment and oversight activities of the Partnership Contracts for Health (PCH) program. We make three recommendations to the USAID Mission Director for Afghanistan to (1) provide no further funding to the PCH program until program cost estimates are validated as legitimate; (2) develop, in coordination with the MoPH, a comprehensive action plan to address deficiencies identified in the April 2012 ministry capability assessment, establish key milestones to monitor progress in executing this action plan, and make additional funding for the PCH program contingent upon the successful completion of established milestones; and (3) validate the funds obligated and expended under the PCH program since its inception and de-obligate any excess funds and return the funds to the U.S. Treasury or put these funds to better use.

This is the second of two reports issued on the subject of USAID-funded health services in Afghanistan. The first report—SIGAR Audit 13-9, *Health Services in Afghanistan: Two New USAID-Funded Hospitals May Not Be Sustainable and Existing Hospitals are Facing Shortages in Some Key Medical Positions*—was issued on April 29, 2013.

In commenting on a draft of this report, USAID did not concur with our first recommendation, partially concurred with the second recommendation, and concurred with the third recommendation. USAID's comments and our responses to them are presented in appendix II. USAID also provided technical comments, which we incorporated into this report, as appropriate.

SIGAR conducted this work under the authority of Public Law No.110-181, as amended; the Inspector General Act of 1978, as amended; and in accordance with generally accepted government auditing standards.

A handwritten signature in black ink, appearing to read "John F. Sopko".

John F. Sopko  
Special Inspector General  
for Afghanistan Reconstruction

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## ABBREVIATIONS

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ADS	Automated Directive System
GCMU	Grants and Contracts Management Unit
MoPH	Ministry of Public Health
NGO	Nongovernmental organization
PCH	Partnership Contracts for Health
USAID	U.S. Agency for International Development

In July 2008, the U.S. Agency for International Development (USAID) and the Ministry of Public Health (MoPH) signed an implementation letter establishing the Partnership Contracts for Health (PCH) program.<sup>1</sup> PCH—a 5-year program that began in November 2009 and is scheduled to be completed in October 2014—is intended to provide funding to the MoPH for the delivery of health services throughout Afghanistan, ranging from immunizations and prenatal care to hospital services, including staff, equipment, and medication.<sup>2</sup> Specifically, the MoPH uses these funds to contract with health-related nongovernmental organizations (NGO) to implement basic public health care in 13 provinces and hospital services in 5 provinces.

The PCH program has a budget of approximately \$236 million.<sup>3</sup> These funds are delivered to the MoPH through a host country contract, which is also a method of implementing on-budget, government-to-government, or direct assistance programs.<sup>4</sup> This type of assistance involves direct delivery of funds through host country systems using legal agreements such as implementation letters between the U.S. and Afghan governments. These funds are executed by Afghan public financial management systems and reflected in the Afghan national budget approved by the parliament.<sup>5</sup> USAID provides direct assistance primarily through bilateral agreements and multilateral trust funds such as the World Bank’s Afghanistan Reconstruction Trust Fund. Through mid-June 2013, USAID had obligated approximately \$190 million for the PCH program, of which about \$127 million had been disbursed.

The objectives of this audit were to determine the extent to which (1) USAID assessed the financial management capability of the MoPH and (2) cost estimates for the PCH program were appropriately developed. To accomplish these objectives, we reviewed USAID policies related to the capability assessments required for direct assistance as well as USAID capability assessments of the MoPH. We interviewed USAID and Ministry officials to obtain their views on ministry capability assessments and information on how the initial cost estimate for the PCH program was developed. We also examined documentation on funds obligated and disbursed for the PCH program. We conducted our work in Kabul, Afghanistan from August 2012 through August 2013, in accordance with generally accepted government auditing standards. Appendix I contains a more detailed discussion of our scope and methodology.

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<sup>1</sup> On September 19, 2005, USAID entered into a Strategic Objective Grant Agreement (SOAG-306-07-00) to improve education and health services in Afghanistan. The PCH program was established under this bilateral agreement.

<sup>2</sup> The current end date for the PCH program as provided in the implementation letter is January 31, 2013. However both USAID and MOPH officials have stated that they are negotiating an extension of the project until October 2014, at which time a new program to support health services in Afghanistan will be implemented.

<sup>3</sup> When the PCH program was initiated, the estimated budget, or “cost ceiling” in USAID’s terminology, for the program was approximately \$218 million. In December 2008, the program was expanded to provide additional services for hospitals in Badakhshan and Kabul. This modification expanded the scope and increased the PCH program’s budget to approximately \$236 million. For simplicity, we refer to “cost ceiling” as the program budget.

<sup>4</sup> USAID documentation refers to the PCH program as on-budget assistance, direct assistance, and government-to-government assistance. For example, USAID’s Risk Management Framework for the MoPH refers to the PCH program as an on-budget project. USAID documentation provided to the Government Accountability Office in July 2011 refers to host country contracts, such as that used for the PCH program, as a mechanism for providing direct government-to-government assistance. When USAID approved the PCH program in July 2008, and in a PCH fact sheet in June 2011, it referred to the program as direct funding. USAID referred to PCH as a government-to-government program in its fiscal year 2010 certification memorandum on funding for Afghanistan. Furthermore, according to section 305.1 of the USAID Automated Directives System (ADS) and the USAID Country Contracting Handbook 1.1, host country contracts—such as that used for the PCH program—are used when implementing bilateral assistance. Lastly, in meetings with SIGAR staff in June 2013, the financial controller of the USAID Mission in Afghanistan described host country contracts as a form of direct assistance. For purposes of this report, we refer to the PCH program as direct assistance.

<sup>5</sup> USAID Mission Order #220.01: *Implementation of Projects Using On-Budget Assistance (OBA)*.

## BACKGROUND

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USAID is one of three key donors providing health sector assistance to the Afghan government; the other two are the World Bank and the European Union. Through this assistance, USAID has sought to expand access to basic public health care and increase the number of health clinics and health workers available for the Afghan people through a two-tiered system:

- *Basic Package of Health Services* provides primary health care services—such as immunizations and prenatal care—at small and rural health clinics and forms the core of health service delivery for all primary care facilities in Afghanistan.
- *Essential Package of Hospital Services* supports the general medical services that hospitals in the Afghan health care system should provide—staff, equipment, diagnostic services, and medications—while promoting a health referral system that integrates primary health care services with hospitals.<sup>6</sup>

The MoPH plays a stewardship role focusing on monitoring and evaluation, policy development, human resources, and accreditation and regulation of the private sector. The MoPH contracts with NGOs to manage and operate hospitals under the Essential Package of Hospital Services program. NGOs are required to implement all program elements, such as ensuring that hospitals funded through the PCH program achieve required staffing levels. The MoPH's Grants and Contracts Management Unit (GCMU)<sup>7</sup> requests the program funding from USAID, and the funds that USAID provides to the MoPH are deposited into Da Afghanistan Bank.<sup>8</sup> Funding for operating the hospitals is provided in advance in increments to cover operational expenses for the subsequent 45-day period. The MoPH submits financial reports to USAID documenting costs that it and the NGOs incur.

## USAID CONTINUES TO FUND MINISTRY HEALTH PROGRAM DESPITE FINANCIAL MANAGEMENT DEFICIENCIES THAT PUT MILLIONS OF TAXPAYER DOLLARS AT RISK

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USAID's April 2012 assessment of the MoPH's financial management capability identified significant internal control deficiencies that put U.S. funds provided under the PCH program at risk of waste, fraud, and abuse. Despite these findings, USAID continues to provide millions in direct assistance with little assurance that funds are used as intended.

### Initial USAID Capability Assessments Were Inadequate for Identifying Internal Control Deficiencies that Put U.S. Funds at Risk of Waste, Fraud, and Abuse

USAID policy and federal internal control standards state that internal controls should be assessed to ensure adequacy and provide reasonable assurance that operations are effective and efficient and that assets are

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<sup>6</sup> Specifically, the program states the types of medical procedures that are to be provided by different hospitals based on its number of beds. For example, regional hospitals—which have 300 to 450 beds—can treat seizure disorders and heart failure, whereas provincial hospitals—which have 75 to 250 beds—can treat heart failure but cannot treat seizure disorders. If a patient at a provincial hospital suffers from seizure disorder, that patient will be referred to a regional hospital.

<sup>7</sup> GCMU was established in 2003 within the Ministry of Public Health and serves as an interface between donors and the MoPH in managing public health funds, particularly Basic Package of Hospital Services and Essential Package of Health Services funds. It manages and oversees grants and contracts for health services delivery in accordance with donors' rules and regulations.

<sup>8</sup> Da Afghanistan Bank is the Central Bank of Afghanistan.

adequately safeguarded.<sup>9</sup> To satisfy these requirements, in October 2007, USAID's Office of Financial Management conducted an assessment of the MoPH's financial management capability. This capability assessment focused on whether the MoPH's operating systems, accounting and reporting policies and procedures, and related internal controls, provided reasonable assurance that donor funds were protected from waste, fraud, and abuse.<sup>10</sup> In its report, USAID's Office of Financial Management concluded that the MoPH's operations were adequate for the purposes of accounting for and managing USAID funds that may be provided directly to the MoPH.

In addition, in May 2008, USAID's Office of Acquisition and Assistance conducted an assessment of the capability of the MoPH's GCMU to support USAID host country contracts. In the 2008 assessment, USAID determined that, although certain steps were required "to strengthen the GCMU's capacity and its procedures," the MoPH "has shown that they possess adequate experience and procurement capabilities to handle procurements funded under USAID host country procurement procedures."

However, in November 2010, USAID's Inspector General reported that the 2007 and 2008 ministerial pre-award assessments—which USAID used to certify the MoPH's ability to manage the \$236 million PCH program—were inadequate and did not provide reasonable assurance of detecting significant vulnerabilities.<sup>11</sup> The USAID Inspector General did not assess internal controls or other aspects of MoPH operations. Rather, the objective of the review was to determine whether USAID's ministerial capability assessment process provided reasonable assurance of identifying significant vulnerabilities that could result in waste or misuse of government resources. The USAID Inspector General found, among other things, that USAID did not consider the control environment in Afghanistan or in individual ministries in any of its pre-award ministerial capability assessments. Further, the USAID Inspector General noted that the USAID capability assessments included little or no testing of internal controls and that it was unclear as to what degree USAID reviewers examined compliance with applicable laws and regulations.<sup>12</sup>

The USAID Inspector General's report recommended that USAID Afghanistan develop and implement suitable policies, procedures, and practices so that ministry capability assessments provide reasonable assurance of identifying significant vulnerabilities that could result in waste or misuse of U.S. government funds. USAID agreed with this recommendation and took actions to enhance its capability assessment process, including modifying the scope of work for its ministry capability assessments.<sup>13</sup>

Our review found that the two assessments conducted by USAID of the MoPH consisted primarily of observations, walk-throughs, and documentation reviews and that USAID conducted little testing of internal controls. While the USAID Inspector General's report made no statement as to whether USAID met USAID policy requirements in conducting these capability assessments, our analysis indicates that USAID did not meet its requirements for assessing the internal controls of the MoPH. Specifically, USAID policy requires that the

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<sup>9</sup> USAID ADS sections 301.1 and 305.1 require that host country capability assessments be conducted prior to awarding a host country contract. See also GAO/AIMD-00.21.3.1, *Standards for Internal Control in the Federal Government*, November 1999.

<sup>10</sup> This review also examined whether the organizational structure of the MoPH was adequate for the purpose of managing USAID funding; whether the MoPH's policies allowed USAID access to their books and records in accordance with USAID's requirements; and whether the Afghan government had sufficient capacity to advance cash disbursements.

<sup>11</sup> USAID Office of the Inspector General, *Review of USAID/Afghanistan's Ministerial Assessment Process*: F-306-11-001-S, November 6, 2010.

<sup>12</sup> In addition, the USAID Inspector General found that USAID assessments did not include substantive information on controls over fixed assets.

<sup>13</sup> Concurrent with its efforts to address these recommendations, USAID developed ADS Chapter 220, "Use of Reliable Partner Country Systems for Direct Management and Implementation of Assistance," in August 2011. This chapter provides the policy directives and required procedures for determining the suitability of using partner country systems for implementation of USAID-funded assistance for programs to be initiated in the future. According to USAID officials, this USAID policy does not apply to the PCH program because, in their view, PCH is not an on-budget or government-to-government program. However, as stated previously, our analysis and USAID documentation clearly show that it is direct assistance. See note 4, *supra*.

financial controller for the Mission ensure the adequacy of accounting systems and internal controls of the contracting entity—in this case the MoPH. Internal control standards for the federal government state that controls are intended to provide reasonable assurance that program goals and objectives are met and that resources are adequately safeguarded.<sup>14</sup> However, as stated in the USAID Inspector General’s report, the capability assessments of the MoPH conducted by USAID do not provide this assurance.

## **USAID Did Not Reevaluate the PCH Program after the USAID Inspector General Identified Weaknesses in the Initial Ministry Assessments**

Despite the USAID Inspector General’s findings indicating funding provided to the PCH program could be at risk of waste and misuse of U.S. government resources, there is no documentation showing that USAID reassessed operations within the MoPH to determine whether funds provided under the PCH program were at risk. According to the financial controller at USAID’s Mission for Afghanistan, the USAID Inspector General’s findings were not specific to host country contracts—such as that used for the PCH program—but were generalized to pre-award ministry capability assessments. Specifically, he stated that the USAID Inspector General’s review was initiated to determine whether prior USAID ministry capability assessments—including the 2007 and 2008 assessments of the MoPH—were sufficient for the purposes of determining whether the ministries had the capability to manage direct assistance programs that may be awarded in the future. However, an official with the USAID Inspector General’s office provided documentation stating that the review was conducted to determine whether USAID’s ministry assessment process provided reasonable assurance of identifying significant vulnerabilities that could result in waste or misuse of U.S. government resources. This official did not specify that the review looked only at funding that may be awarded in the future. Further, the USAID Inspector General’s report specifically discusses USAID’s capability assessments of the MoPH in its findings.

The financial controller at USAID’s Mission for Afghanistan also asserted that host country contracts do not constitute direct assistance, and claimed on that basis that the findings of the USAID Inspector General’s report do not apply to the PCH program. However, our review of USAID documents and USAID’s response to our inquiries indicate that the PCH program, which is implemented through a host country contract, is direct assistance, and, therefore, the USAID Inspector General’s findings are applicable to the 2007 and 2008 assessments. Moreover, calling the program a host country contract does not change the fact that it is direct assistance. USAID policy and federal internal control standards are clear in requiring that internal controls be assessed to ensure adequacy and provide reasonable assurance that operations are effective and efficient and assets are adequately safeguarded.<sup>15</sup> Without ensuring that resources are adequately safeguarded, USAID had little assurance that PCH program funds would be used for their intended purposes.

## **Subsequent External Assessment by a Public Accounting Firm Found Significant Internal Control Deficiencies in the MoPH**

In November 2011, USAID contracted with a public accounting firm to conduct another pre-award capability assessment of the MoPH.<sup>16</sup> One of the assessment’s objectives<sup>17</sup> was “to determine whether the MoPH had

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<sup>14</sup> GAO/AIMD-00.21.3.1, *Standards for Internal Control in the Federal Government*, November 1999.

<sup>15</sup> USAID ADS sections 301.1 and 305.1 require that host country capability assessments be conducted prior to awarding a host country contract. See also GAO/AIMD-00.21.3.1, *Standards for Internal Control in the Federal Government*, November 1999.

<sup>16</sup> This capability assessment was conducted to determine whether the MoPH had sufficient financial management systems and capacity to manage funds for the Health Expanded program, which would provide \$102 million through on-budget funding.

<sup>17</sup> The capability assessment’s five objectives were to determine whether (1) the MoPH had the capability to perform host country contracting in accordance with USAID procurement regulations, (2) the MoPH’s financial management/accounting system is adequate to properly manage and account for funds, (3) the MoPH’s internal controls are adequate, (4) the

sufficient financial management systems and the capacity to manage funds in accordance with Afghan government rules and regulations and USAID host country contracting requirements.”<sup>18</sup> This capability assessment considered key areas based on USAID guidelines applicable to host country contracts, set forth pre- and post-award disbursement conditions, and included a section specifically on the MoPH’s operation of the PCH program. USAID officials claimed that this capability assessment was not conducted as a result of the USAID Inspector General’s findings from 2010. The scope for this assessment, which was completed in April 2012, was similar to the scope of the 2007 and 2008 USAID pre-award capability assessments.<sup>19</sup> Specifically, these assessments covered the MoPH’s budget procedures, accounting and internal controls, and procurement capabilities. However, unlike the previous capability assessments, the April 2012 capability assessment revealed numerous significant internal control weaknesses. For example, weaknesses identified in the April 2012 capability assessment included the following areas:

- Accounting and Treasury Functions
  - Salary payments for some directors were paid in cash, which exposes the MoPH to risk of misappropriation.
  - No double entry accounting system was used in maintaining books, which can affect the reliability and completeness of financial information produced by the MoPH.
  - A documented policies and procedures manual for the finance directorate did not exist.
  - External financial audits were not being performed as required by international auditing standards.
- Procurement Functions
  - Policies and procedures for procurement activities were not documented.
  - Bid evaluation criteria or a vendor evaluation process for vendor registration was not documented.
  - Controls over legal vetting of procurement contracts did not exist.
- Internal Audit
  - The Internal Audit team does not have relevant professional qualifications required for performing audits.
  - A documented Internal Audit charter and established key performance indicators did not exist.
  - Risk assessments were not prepared to assess the impact and likelihood of risks in preparation of audit plans.
- Budget Procedures
  - No budget committee existed for preparing a budget.
  - Budget procedures for revenues did not exist.
  - Reasons for variances from the development budget are not formally documented.

Table 1 shows the results for some key areas that were reviewed in the 2007 and 2008 assessments and the 2012 pre-award assessment of the MoPH.

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MoPH’s procurement management units have sufficient systems and management capacity, and (5) the MoPH complies, in all material respects, with applicable laws and regulations.

<sup>18</sup> Ernst & Young, *Final Report on Pre-Award Assessment: Ministry of Public Health*, (RFP# 30611048), 12 April 2012.

<sup>19</sup> The 2007 and 2008 USAID capability assessments covered budget procedures, accounting and treasury functions, internal audit, procurement and planning, finance, internal control and audit. The external accounting firm’s 2012 capability assessment covered corporate governance structure and control environment, financial management, budgeting and accounting systems, personnel policies and procedures, procurement and purchasing systems, and program management and monitoring.

**Table 1 - Capability Assessment Findings for Afghan Ministry of Public Health**

Function	2007/2008 USAID Capability Assessment Results	2012 Pre-award Capability Assessment
Internal audit <sup>a</sup>	Satisfactory	Critical area needing improvement prior to disbursing funds
Budget procedures <sup>a</sup>	Satisfactory	Critical area needing improvement prior to disbursing funds
Accounting and treasury functions <sup>a</sup>	Satisfactory	Critical area needing improvement prior to disbursing funds
Procurement functions <sup>b</sup>	Procurement system is capable of handling procurements funded under USAID's host country procurement procedures	Critical area needing improvement prior to disbursing funds

Source: SIGAR review of the 2007 and 2008 USAID assessments and the 2012 external pre-award assessment of the MoPH.

<sup>a</sup>Identified in 2007 capability assessment conducted by USAID's Office of Financial Management.

<sup>b</sup>Identified in 2008 capability assessment conducted by USAID's Office of Acquisitions and Assistance.

## USAID Never Verified the MoPH's Corrective Actions in Response to the April 2012 Capability Assessment, But Continues to Provide Hundreds of Millions of U.S. Taxpayer Dollars in Direct Assistance to the MoPH

USAID officials stated that, due to the lack of personnel, they have not verified what, if any, actions the MoPH has taken to address the findings of the April 2012 assessment. Although USAID maintains that it has no obligation to address the deficiencies identified in the USAID Inspector General's report or the April 2012 capability assessment, because the capability assessment was done in anticipation of providing future direct assistance, USAID has provided the MoPH some guidance to help it address those deficiencies. In September 2012, 5 months after the capability assessment, USAID provided a Risk Management Framework (Framework) to the MoPH, which listed deficiencies from the April 2012 capability assessment, risks associated with those deficiencies, required corrective actions, and timeframes for implementing corrective actions.<sup>20</sup> However, the Framework simply repeats information contained in the April 2012 capability assessment. Using the Framework, MoPH officials stated that they developed an action plan to address the April 2012 capability assessment deficiencies and have made some progress in addressing them. The financial controller for USAID's Mission for Afghanistan noted, however, that USAID has not taken any steps to determine whether the actions the MoPH says it has taken were actually taken, and if they were, whether those actions adequately address the deficiencies identified in the April 2012 capability assessment.

The financial controller reiterated his assertion to us during the course of our review that the 2012 assessment's findings are not relevant to the PCH program because it is a host country contract and not a direct assistance or government-to-government program. He stated that the 2012 capability assessment was conducted to determine the MoPH's capability to manage *future* direct assistance programs. He acknowledged

<sup>20</sup> According to USAID policy, after the completion of an assessment of financial management, USAID's Office of Financial Management should develop a Risk Management Framework to summarize assessment findings, identify pre-disbursement conditions, and recommend measures that will mitigate the weaknesses and vulnerabilities. See USAID Mission Order #220.01: *Implementation of Projects Using On-Budget Assistance (OBA)*.

that the 2012 capability assessment included a review of the PCH program and specifically stated that it was conducted to assess the MoPH's capability to manage host country contracts, such as the PCH program. He added, however, that it was a forward-looking capability assessment and that, therefore, USAID has no obligation to address the deficiencies identified or to verify any corrective actions that the MoPH may have implemented for the PCH program. Further, in June 2013, USAID provided documentation stating that if the agency enters into a government-to-government direct assistance agreement with the MoPH in the future, it might address internal control weaknesses as a pre-condition to the agreement or try to mitigate the weaknesses. Contrary to these assertions, USAID documentation, as well as discussions with other USAID officials, identifies the PCH program as government-to-government assistance and a direct assistance program.<sup>21</sup>

Additionally, in January 2013, USAID prepared a Stage II Risk Assessment Report<sup>22</sup> as part of USAID's approval of a proposed direct assistance program, which may replace the PCH program once it ends in October 2014. This stage II assessment report—which was based on, among other things, the findings of the 2012 capability assessment—concluded that the MoPH's financial management and accounting system, internal controls, and procurement management units did not have sufficient systems and management capacity to implement activities and manage donors' funds.<sup>23</sup> Additionally, USAID concluded that the internal control environment is not adequate to mitigate risk of corruption as several key controls are not implemented, and it is unclear if the Afghan government, including the MoPH, has the capacity to combat corruption effectively.<sup>24</sup> However, USAID has not taken any steps to put risk mitigation procedures in place or assist the MoPH in taking corrective action to ensure that the funds that are disbursed to the MoPH under the PCH program are used as intended because—according to USAID—this risk assessment is only for review of *future* funding programs.

In commenting on a draft of this report, USAID stated that it has been coordinating with the MoPH since May 2013 to comprehensively address the deficiencies identified in the 2012 ministry capability assessment. According to USAID, MoPH-GCMU reported that, to date, the Ministry has mitigated 22 of 55 action items addressing the risk areas identified in the capability assessment. USAID added that it will validate the 22 reportedly completed action items by the end of September 2013, and it will confirm and verify the completion of the remaining 33 corrective actions by the end of November 2013.

The April 2012 ministry capability assessment stated that enhancements to the MoPH's internal control structure needed to be made prior to disbursing donor funds to it. However, despite the results of this capability assessment, USAID has continued to provide funding for the PCH program—about \$79 million in obligations and nearly \$42 million disbursed since the capability assessment was released. As of June 6, 2013, about \$109 million of the \$236 million budget remained to be disbursed. USAID provided documentation stating that the opinion of the external auditor that conducted the April 2012 capability assessment is the viewpoint of the certified public accounting firm that conducted the assessment and not that of the U.S. government. However, as noted previously, USAID policies require the financial controller of the USAID mission to ensure that the contracting agency—in this case the MoPH—has accounting and internal

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<sup>21</sup> See our earlier discussion of this issue and note 4, *supra*.

<sup>22</sup> USAID ADS Chapter 220 requires an in-depth risk assessment to be completed by USAID that includes such testing of Public Financial Management systems as necessary to validate overall systems operations and internal controls, and identify performance risks.

<sup>23</sup> It also found that the MoPH did not fully comply with Afghan procurement laws and regulations.

<sup>24</sup> In November 2012, the USAID Administrator, pursuant to ADS section 220.3.2.2, waived USAID Afghanistan's requirement to comply with ADS Chapter 220 procedures in order to avoid impairment of U.S. government foreign assistance objectives. Specifically the waiver claimed that while USAID Afghanistan had not fulfilled every step in the ADS Chapter 220 process because the USAID Afghanistan never conducted required capability assessments, doing so at the time would undermine the U.S. Government's foreign assistance and foreign policy objectives, and is also unnecessary. This waiver will apply to all funds appropriated and made available to USAID Afghanistan through and including fiscal year 2013 appropriations. The waiver also noted that the government-to-government assistance activities through 2014, including the PCH program, are planned at an estimated obligation level of approximately \$2.4 billion using appropriated funds for fiscal years 2011, 2012, and 2013.

controls that are adequate.<sup>25</sup> USAID's decision to continue disbursing funds to the MoPH for the PCH program, with little to no assurance that these funds are safeguarded from waste, fraud, and abuse, raises serious concerns about the integrity of the PCH program.

## USAID DID NOT INDEPENDENTLY VALIDATE THE \$236 MILLION COST ESTIMATE THAT THE MOPH DEVELOPED FOR THE PCH PROGRAM

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USAID budgeted \$236 million for the PCH program based on a cost estimate that—according to both MoPH and USAID officials—the MoPH developed. USAID did not independently validate this cost estimate which suggests that USAID's budgeting methods at the inception of the program were ineffective. For example, USAID did not prepare a comprehensive analysis of the actual cost for the PCH program using key factors such as patient load, population statistics, existing infrastructure, seasonal variations, and the security situation in each province. USAID officials stated that the program cost estimate was developed based on historical data, but they could not provide documentation showing the methodology used to calculate the estimate. As a result, we could not determine the accuracy and reliability of the \$236 million direct assistance estimate for the PCH program.

Our review of USAID's disbursements and obligations indicates that about 67 percent of funds obligated for the PCH program were spent as of June 2013. Specifically, through June 2013, USAID obligated more than \$190 million for the PCH program. However, actual PCH expenses were about \$127 million, resulting in potential excess obligations of about \$63 million.<sup>26</sup> Given the questions raised concerning the validity of the cost estimate and the current ratio of obligations to disbursements, the excess obligations could be de-obligated and returned to the U.S. Treasury for better use or set aside pending USAID's validation of the actual cost estimate.

Federal internal control standards state that internal control activities should ensure adherence to requirements for budget development and execution.<sup>27</sup> Further, federal cost estimating guidelines specify that conducting an independent review of an estimate is crucial to establishing confidence in the estimate.<sup>28</sup> The independent reviewer should verify, modify, and correct an estimate to ensure realism, completeness, and consistency. To help achieve this, federal cost estimating guidelines state that high quality cost estimates should be well documented, comprehensive, accurate, and credible. To date, USAID has not documented how the PCH program cost estimate was derived. USAID's lack of documentation on how cost estimates for the PCH program were derived as well as the fact that it has yet to validate the existing cost estimate makes it difficult for program managers and policy makers to ensure that funds are being allocated to areas of greatest need.

## CONCLUSION

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U.S. funding for the PCH program is at high risk of waste, fraud, and abuse. USAID is providing funds without assurance that the MoPH has adequate accounting systems and internal controls to account for and protect these funds. USAID maintains that the program funds are provided through a host country contract and, therefore, do not constitute direct assistance. Consequently, USAID believes it has no obligation to assess the MoPH's internal controls beyond examining those controls to support certification of the procurement system. However, USAID documents unmistakably show that the PCH program—implemented through a host country contract—constitutes direct assistance. Therefore, the MoPH should receive a vigorous assessment of its internal controls. Setting aside definitional differences, USAID policy requires the Mission to ensure that the

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<sup>25</sup> USAID ADS section 301.2.

<sup>26</sup> As of August 1, 2013, the amount of funds left to be expended was \$49 million.

<sup>27</sup> GAO/AIMD-00.21.3.1, *Standards for Internal Control in the Federal Government*, November 1999.

<sup>28</sup> GAO-09-3SP, *GAO Cost Estimating and Assessment Guide*, March 2009.

host government has adequate accounting systems and internal controls prior to awarding a host country contract. In April 2012, an auditing firm contracted by USAID reported that improvements were needed in the MoPH's budgeting, accounting, and procurement systems prior to disbursing donor funds. Alarming, a USAID official told us that the agency has no obligation to address the deficiencies identified or to verify any corrective actions that the MoPH may have implemented for the ongoing PCH program. In our view, this is a reckless disregard toward the management of U.S. taxpayer dollars. To date, USAID continues to provide funds—\$42 million since the April 2012 assessment—to the MoPH.

The MoPH maintains that it has taken some steps to address the internal control deficiencies identified in the 2012 capability assessment. However, USAID has not made any effort to verify the corrective actions the MoPH says it has taken. Moreover, USAID relied on the MoPH to develop an initial cost estimate to determine the agency's contribution to the PCH program. This unsupported estimate for the program, combined with USAID's failure to independently validate program funding requirements, has led to excess obligations of nearly \$63 million. USAID's desire to help the MoPH improve the health of Afghans is certainly laudable, but that does not relieve USAID from its responsibility to ensure that U.S. funds expended under this program are properly accounted for and used for their intended purposes. Without proper assurances that the accounting system and internal control deficiencies identified in the 2012 ministry capability assessment have been sufficiently addressed, USAID should not provide additional funding to the MoPH for the PCH program.

## RECOMMENDATIONS

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To improve the pre-award assessment process, develop realistic budgets, and ensure proper stewardship and transparency of U.S. funds provided to the Afghan government, we recommend that the USAID Mission Director,

- 1. Provide no further funding to the PCH program until program cost estimates are validated as legitimate.**
- 2. Develop, in coordination with the MoPH, a comprehensive action plan to address the deficiencies identified in the 2012 ministry capability assessment, establish key milestones to monitor progress in executing this action plan, and make additional funding for the PCH program contingent upon the successful completion of the established milestones.**
- 3. Validate the funds obligated and expended under the PCH program since its inception and de-obligate any excess funds and return the funds to the Treasury or put these funds to better use.**

## AGENCY COMMENTS

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We received written comments on a draft of this report from USAID and made revisions to the report, as appropriate. USAID did not concur with the first recommendation, partially concurred with the second recommendation, and concurred with the third recommendation. Along with its written comments, USAID provided new supporting documentation that we had asked for on multiple occasions, but which USAID officials told us they could not locate by USAID during the course of the audit.

Overall, USAID took strong exception to the title of our draft report and any implication that there is a high risk of misuse of funds for the PCH program. According to USAID, the establishment of the GCMU greatly enhanced the MoPH's ability to manage public funds for the implementation of the Basic Package of Health Services and Essential Package of Health Services programs through international and national NGOs. We have strong evidence that leads us to conclude that funds provided to the MoPH under the PCH program are at risk of misuse. Specifically, both USAID and third party assessments of the MoPH have concluded that USAID cannot rely on MoPH's systems, operations, and internal controls to manage donors' funds without substantive

measures being taken. However, we acknowledge USAID's comments on our title and have deleted any characterization of the degree to which there is a risk of misuse of funds.

USAID believes that additional information provided with its written comments substantiates the initial cost estimate developed by a USAID implementing partner consultant in conjunction with the GCMU. On that basis, USAID did not agree with our first recommendation to withhold further funding to the PCH program until program cost estimates are validated as legitimate. However, USAID did not provide evidence of its independent validation of this estimate. As noted earlier in this report, federal cost estimating guidelines specify that conducting an independent review of an estimate is crucial to establishing confidence in the estimate. In addition, USAID did not provide any supporting documentation for the historic costs that were used as a baseline for calculating the estimate. Therefore, we maintain that our recommendation is appropriate and valid and needs to be acted on.

USAID partially concurred with our second recommendation. USAID stated that it has been coordinating with the MoPH since May 2013 to "comprehensively address" the deficiencies identified in the April 2012 ministry capability assessment. While we acknowledge USAID's efforts in working with MoPH to take necessary risk mitigation measures, USAID has not verified MoPH's actions as sufficient to address the risks identified in the capability assessment. Therefore, we believe that making future funding to the MoPH contingent upon successful completion of the established milestones is vital in safeguarding U.S. taxpayers' money until USAID achieves complete verification of MoPH's action plan.

USAID concurred with our third recommendation and stated that it has validated the funds obligated and expended under the PCH program since its inception and has determined that there are no excess funds to de-obligate. We welcome USAID's efforts in regard to this recommendation. However, a significant amount of funds remain to be expended under the program—\$49 million as of August 1, 2013. Additionally, only \$190 million of the program's \$236 million cost ceiling has been obligated, resulting in about \$46 million available for use if necessary. Therefore, we believe that it is not appropriate to close the recommendation. We will reexamine the PCH program funding in October, 2014, which is closer to the program's completion date, and determine at that time whether any action by USAID remains to be taken and whether closure of this recommendation is appropriate.

## APPENDIX I - SCOPE AND METHODOLOGY

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In August 2012, SIGAR initiated an audit of the U.S. Agency for International Development (USAID) assessment and oversight processes as they relate to the funding of hospitals in Afghanistan. The objectives of this report were to determine the extent to which (1) USAID assessed the financial management capability of the MoPH, and (2) cost estimates for the PCH program were developed appropriately. We reviewed documents for the period May 2007 through June 2013.

To determine the extent to which USAID assessed the financial management capability of the MoPH, we examined USAID policies regarding assessment requirements for direct assistance. We also examined USAID assessments conducted to satisfy these requirements as well as reports examining the efficacy of these assessments. We examined the PCH program assessment conducted by the external certified public accounting firm and reviewed the extent to which the MoPH and USAID had taken steps to address deficiencies identified in this assessment. We also interviewed USAID officials to obtain their views as to the applicability of these assessments to the PCH program as well as obtain views on the extent to which USAID is responsible for addressing deficiencies identified in audits of this program. Lastly, we interviewed Ministry of Public Health officials to obtain information on the extent to which USAID had provided input and guidance on addressing deficiencies identified in previous assessments.

To determine the extent to which budget estimates for the PCH program were developed appropriately, we examined obligations and disbursements for the PCH program from inception in November 2009 through June 2013. We examined federal internal control and cost estimation guidelines to evaluate USAID cost estimation and validation activities. We also spoke to USAID and MoPH officials regarding how PCH program cost estimates were derived as well as the extent to which USAID validated estimates.

We did not rely on computer-processed data in conducting this audit. We considered the impact of compliance with laws and fraud risks. We assessed internal controls in the process of conducting assessments and developing initial cost estimates through our review of USAID policies and procedures and the pre-award assessment process. The results of our assessment are included in the body of the report.

We conducted our audit work in Kabul, Afghanistan from August 2012 through August 2013, in accordance with generally accepted government auditing standards. These 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 objectives. We believe that the evidence obtained provides a reasonable basis for our findings and conclusions based on our audit objectives. SIGAR performed this audit under the authority of Public Law No. 110-181, as amended; the Inspector General Act of 1978, as amended; and in accordance with generally accepted government auditing standards.

## APPENDIX II - COMMENTS FROM THE U.S. AGENCY FOR INTERNATIONAL DEVELOPMENT

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MEMORANDUM

August 28, 2013

TO: John F. Sopko  
Special Inspector General for  
Afghanistan Reconstruction (SIGAR)

FROM: William Hammink, Mission Director 

SUBJECT: Draft SIGAR Report titled "Health Services in Afghanistan: USAID Continues Providing Millions of Dollars to the Ministry of Public Health despite High Risk of Misuse of Funds" (SIGAR 13-17)

REF: SIGAR Transmittal email dated 08/05/2013

Thank you for providing USAID with the opportunity to review the subject draft audit report. Discussed below are our comments on the findings and recommendations in the report.

### GENERAL COMMENTS

USAID takes its fiduciary and stewardship responsibilities of U.S. taxpayer money extremely seriously. Thus, USAID takes strong exception to the title of the draft report and any implication that there is a high risk of misuse of funds for the Partnership Contracts for Health (PCH) program.

Despite the title of the draft report, which USAID urges be changed, the report provides no evidence that the extensive measures taken by USAID to safeguard taxpayer resources have resulted in high risk of misuse of funds, or that there have been incidences of waste, fraud and abuse within these mitigation measures. In fact, the recommendations in the report relate to actions already being taken or completed by USAID.

SIGAR Comment 1

The PCH program, which supports the Ministry of Public Health (MoPH) to provide basic healthcare to the Afghans, has been hailed as a success story because of the dramatic improvements in health. USAID continues to work with the MoPH to strengthen its capacity to maintain those gains

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while ensuring funding is properly safeguarded. As a key measure to address our fiduciary and stewardship responsibility and mitigate risks under the host-country contracting modality of assistance, USAID chose to implement the PCH program using the MoPH Grants and Contract Management Unit (GCMU). This unit was established in 2003 under USAID and other donor technical assistance programs. The establishment of the GCMU greatly enhanced the ability of the MoPH to manage public funds for the implementation of the Basic Package of Health Services (BPHS) and the Essential Package of Hospital Services (EPHS) programs through international and national NGOs.

The GCMU is responsible for ensuring proper procedures are followed for procurement, contract and financial management, monitoring and evaluation, and coordination with other donors and MoPH stakeholders in compliance with donor requirements. The GCMU staff funded by USAID provides these services specific to the PCH program activities and funds. It is in part because of the GCMU that the MoPH and USAID have had such a strong success with the PCH program over the past several years and confidence in the management of the funds for the PCH program.

USAID is committed to strengthening the MoPH as a provider of services to the people of Afghanistan and as a reliable steward of Afghan and donor resources. In 2012, USAID assessed the capacity of the MoPH<sup>1</sup> along with 12 other Government of the Islamic Republic of Afghanistan (GIROA) ministries. The MoPH assessment was part of USAID's forward-looking effort to identify strengths and weaknesses in the capacities of key ministries and to select areas to target for improvement. Per current USAID policy, these assessments – and addressing identified weaknesses – are a necessary precondition to direct government to government (G2G) assistance that relies on GIROA procurement, financial, and other systems without reliance on host country contracting procedures or the involvement of a special, donor-funded unit like the GCMU.

Given the MoPH capacity issues USAID has identified in the past, along with those identified in the 2012 assessment, the GCMU was and continues to be a necessary safeguard to ensure proper management of USG funds under the PCH program. Only after all of the material weaknesses identified in the assessment are adequately addressed will

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<sup>1</sup> April, 2012 Final Report on Pre-Award Assessment: Ministry of Public Health

USAID be able to move forward with providing direct assistance to the MoPH without the extra protections the GCMU provides.

USAID continues to provide technical support to the MoPH to improve its capacity to plan and manage activities, allocate resources, increase human resource capacity, strengthen health information and logistics systems, and monitor and evaluate the BPHS and the EPHS programs.

Since the subject audit's field work was concluded, USAID and the MoPH have made substantial progress in addressing the recommendations included in the assessment. Of the 55 items identified in that document, the MoPH reports it has addressed 22, with review by USAID of the remaining items expected by the end of November 2013. Again, no USAID funds will flow directly to the MoPH without the involvement and oversight of the GCMU until USAID has verified that all 55 of these items have been addressed.

USAID is proud of the achievements realized for the health sector through PCH, which delivers the BPHS and EPHS in more than 530 health facilities and 5,000 health posts in 13 out of the 34 provinces. The PCH-supported non-governmental organization (NGO) contracts in 13 provinces serve roughly half of the population of Afghanistan.

As a result of U.S. assistance through the PCH program, millions of people in rural Afghanistan now have access to primary health care for the first time. Since 2002, the number of functioning primary health care facilities has increased from an estimated 498 to about 2,100 in 2012. Over this same time period, the number of Community Health Workers increased from 624 to 4,950, making health services more accessible to women. Each month, more than one million patients visit USAID-supported PCH health facilities. Three-quarters of those served are women and children.

The annual *Survey of the Afghan People*<sup>2</sup> repeatedly has documented the positive perception generated of GIRA as a result of the services delivered by the health sector, including in large measure those provided with USAID funds.

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<sup>2</sup> <http://usaidfoundation.org/country/afghanistan/2012-poll.php>

### COMMENTS ON SIGAR'S RECOMMENDATIONS

*To improve the pre-award assessment process, develop realistic budgets, and ensure proper stewardship and transparency of U.S. funds provided to the Afghan government, we recommend that the USAID Mission Director,*

*1. Provide no further funding to the PCH program until program cost estimates are validated as legitimate.*

**USAID Comments:** USAID does not concur with Recommendation 1. Detailed cost estimates for PCH were validated and completed prior to our agreement with GIRoA.

SIGAR comment 2

Attached in Tab 1, please find additional documentation related to the cost estimates developed for PCH. USAID considers that the additional information provided herein substantiates the estimated costs for PCH and therefore there is no need to withhold funding.

Based on the above, USAID requests SIGAR's concurrence to the closure of Recommendation 1.

*2. Develop, in coordination with the MoPH, a comprehensive action plan to address the deficiencies identified in the 2012 ministry capability assessment, establish key milestones to monitor progress in executing this action plan, and make additional funding for the PCH program contingent upon the successful completion of the established milestones.*

**USAID Comments:** USAID does not concur to make additional funding for the PCH program contingent upon completion of milestones since the PCH program has adequate oversight and proper funds management through the GCMU. At the same time, USAID is actively working with the MoPH to address the deficiencies identified in the 2012 ministry assessment.

**Actions Taken/Planned:** USAID has taken steps and has been coordinating with the MoPH since May, 2013 to comprehensively address the deficiencies identified in the 2012 ministry assessment. USAID conducts regular meetings with and has reviewed and concurred with the Risk Management Framework (action plan) document prepared by the MoPH. The documents and regular updates reflect the identified risks, the recommended improvement actions and their status, and risk mitigation techniques applied by USAID to mitigate the identified risks.

SIGAR comment 3

The MoPH-GCMU has reported that to date, the Ministry mitigated 22 out of the 55 action items addressing the risks identified in the capability assessment. The MoPH indicates it is implementing the USAID-reviewed action plan to address the remaining 33 corrective actions. USAID will validate the 22 reportedly completed action items by the end of September 2013, through documentation reviews, walkthroughs, and testing of transactions and internal controls as needed. According to the action plan, the remaining corrective action items are planned to be completed by the end of September, 2013. USAID will confirm and verify the completion of the remaining action items by the end of November 2013 and continue to monitor the action plan as needed.

As part of USAID's overall risk mitigation and decision-making process, USAID will progressively evaluate and consider the remaining risk based on the implementation of the action plan and along with the other risk mitigation measures already taken on the PCH program.

USAID believes that Part 1 of Recommendation 2 is adequately addressed and therefore requests SIGAR's acknowledgment of the management decision. USAID will request closure upon completion of the planned actions.

*3. Validate the funds obligated and expended under the PCH program since its inception and de-obligate any excess funds and return the funds to the Treasury or put these funds to better use.*

**USAID Comments:** USAID concurs with Recommendation 3. As required by USAID worldwide policy (see ADS Chapter 621), USAID has validated the funds obligated and expended under PCH since its inception and has determined that there are no excess funds to de-obligate. USAID will continue to monitor PCH obligations and expenditures through standard operating procedures.

SIGAR comment 4

Attached in Tab 2 please find the requested chart of funds obligated and expended under PCH since its inception. The current pipeline of funds will be required to cover the estimated costs of a one-year extension of the PCH contracts, through October, 2014. Although the audit report cites \$63 million, the current balance as of August 1, 2013, is \$49 million, reflecting ongoing expenditures under the program.

USAID considers the funds for PCH to be used appropriately in accordance with the terms of the agreement, particularly given results in

the health sector described above and elsewhere. As demonstrated in the costing data provided in Tab 1, and in the details in Tab 3, provided on June 6, 2013 to the SIGAR auditors, USAID estimates that most of the balance of funds will be expended during the planned PCH extension.

Following standard USAID procedures, USAID will de-obligate any remaining excess funds determined closer to the actual PCH end-date. In addition, USAID notes that the current pipeline of funds is less than 12 months, well within the guidelines allowed under ADS 602.3.2.

Based on the above, we request SIGAR's concurrence to the closure of Recommendation 3.

**Attachments:**

Tab 1: Additional information on PCH cost estimates

Tab 2: Funds obligated and expended under PCH since its inception

Tab 3: Information on use of PCH funds, provided to SIGAR auditors on June 6, 2013

cc: U.S. Embassy/Kabul Coordination Directorate

**TAB 1: Additional information on PCH cost estimates**

In July 2008, the Partnership Contracts for Health (PCH) was originally authorized with a ceiling of \$218,221,257. The Action Memo (which constituted the Program Approval Action Memorandum or PAAM and accompanied Implementation Letter [IL] #6) includes in its Program Description a Financing Plan with funding requirements that were:

“...estimates derived from historic costs for delivering [the Basic Package of Health Services] BPHS and [the Essential Package of Hospital Services] EPHS services to the thirteen provinces, and increased annually by five percent (5%) for inflation and two and one-half percent (2.5%) for program expansion.”

The historic cost estimates referenced were compiled by a USAID Implementing Partner (Management Sciences for Health) consultant with the assistance of Ministry of Public Health (MoPH)/Grants and Contract Management Unit (GCMU) and USAID staff. The estimates provide details on how the costs were derived, including number and type of facility, actual cost history, management costs (such as salaries), etc. The detailed cost estimates are attached as two Excel spreadsheets for reference and are in USAID files. Some of the specific assumptions included:

- [Basic health center] BHC average annual costs for whole PCH is \$20,000
- [Community health center] CHC average annual costs for whole PCH is \$55,000
- Subcenters average annual costs for whole PCH is \$15,000
- CHC+ and [District Hospital] DH costs were based on their actual cost history
- Badakhshan [health facility] HF costs are higher. The costs below are based on actual cost history, see detail.
- Management costs were computed at 80% of the direct HF costs.
- Some adjustments were made to the management costs.

In September 2008, IL #7 modified the original IL #6, expanding the scope of PCH and increasing its ceiling from \$218,221,257 to \$236,455,840. The increase was designed to cover the costs, over five years, of support to Faizabad Provincial Hospital maternity ward in the Badakhshan EPHS contract (\$1,657,689) and to Wazir Akbar Khan Hospital (WAKH) in Kabul (\$16,576,894). The Action Memo which accompanied IL #7 notes that the cost estimate for the Faizabad maternity

ward was obtained from the UNFPA, which had previously funded it, and included a five percent (5%) increase in each subsequent year. The cost estimate for WAKH was based on historical costs incurred by USAID through a previous grant to Loma Linda University to provide technical assistance and support to WAKH, plus a five percent (5%) increase in each subsequent year.

Additional IL amendments realigned the existing budget of \$236,455,840 to accommodate emerging needs such as the expansion of BPHS to 80 Key Terrain (Quick Impact) districts in the East and South, the extension of the EPHS to Farah Provincial Hospital, and the addition of 10 prison health centers (IL #10); the movement, on-budget, of equipment procurement by implementing NGOs, and technical assistance to the MoPH/GCMU, both of which had been previously funded by USAID through an off-budget Implementing Partner's project (IL #15); and the movement, on-budget, of the Community Midwifery Education program, which had been previously funded by USAID through an off-budget Implementing Partner's project (IL #18).

However, for a variety of reasons, some of the original costing assumptions did not materialize and some of the planned activities were never implemented. For example, although 5 percent per year was figured into calculations for inflation in budget out-years, inflation was less than expected. In addition, management costs for non-governmental organizations (NGOs) contracted under PCH were less than expected as the result of an MoPH decision to solicit only one NGO grant per province rather than two or three. The MoPH also had anticipated more international NGOs with higher management costs (e.g., for travel, housing, security, etc.) to apply for the PCH grants. Ultimately, the MoPH ended up awarding more contracts to national NGOs, thus resulting in lower overall costs.

Furthermore, a number of activities were not implemented or were ended prematurely. For instance, the grant for WAKH (implemented by the international NGO IMC) was terminated due to performance issues; the EPHS contract to Farah Provincial Hospital was never awarded because the World Bank (which traditionally funds NGOs to implement BPHS/EPHS in Farah province) decided to absorb the Provincial Hospital in its program; the 2.5 percent increase for program expansion was curtailed in 2011; equipment was procured only once under PCH rather than every one or two years as done under previous programs; MoPH/GCMU staff were not moved on-budget as originally planned; and the 80 Quick Impact districts originally envisioned for incorporation into

PCH never materialized because of a mandate by the MoPH to keep management costs low by only allowing one donor per province.

As a result of the above, overall costs for PCH have been somewhat lower than the original ceiling, thus allowing for some of the new activities through budget alignments mentioned above. Tab 3 provides details on how the funds will be utilized, including through an extension of PCH.

**Attachments:**

1. PCH Budget prepared July 2008
2. PCH Budget ceiling request detail prepared June 2008

TAB 2: Funds obligated and expended under PCH since its inception

## MoPH\_PCH\_Obligation &amp; Disbursement Transactions\_August 12, 2013

Year	Month	Obligation	Disbursement
2008	July	4,000,000.00	
<b>2008 Total</b>		<b>4,000,000.00</b>	
2009	September	-	
	November	28,812,936.69	
<b>2009 Total</b>		<b>28,812,936.69</b>	
2010	March		2,958,664.00
	April		3,320,456.00
	May		3,372,265.00
	June		3,228,910.00
	July	8,500,000.00	
	September		9,011,587.00
	October		5,326,376.00
<b>2010 Total</b>		<b>8,500,000.00</b>	<b>27,218,258.00</b>
2011	February	15,000,000.00	6,070,821.00
	March		8,892,301.00
	June		10,373,689.69
	July	10,213,367.75	
	August		5,421,042.00
	October	45,000,000.00	4,332,204.00
	November		4,785,628.00
<b>2011 Total</b>		<b>70,213,367.75</b>	<b>39,875,685.69</b>
2012	February		10,603,693.00
	March		3,625,796.00
	April		4,203,605.00
	May		5,586,384.00
	July		3,177,152.00
	September		4,497,261.00
	October	78,760,605.78	5,700,601.00
	November		3,563,095.00
<b>2012 Total</b>		<b>78,760,605.78</b>	<b>40,957,587.00</b>
2013	January		6,065,413.00
	February		5,016,730.00
	March		3,289,969.00
	April		5,042,544.00
	June		8,653,470.00
	July		5,131,984.00
<b>2013 Total</b>			<b>33,200,110.00</b>
<b>Grand Total</b>		<b>190,286,910.22</b>	<b>141,251,640.69</b>

**TAB 3: Information on use of PCH funds, provided to SIGAR auditors on June 6, 2013**

**Att 1 Response on use of PCH funds 6-6-2013.docx**

**SIGAR Request:** “Information from the technical office on how excess obligations for the PCH program may be used”

**USAID Response:** The obligated amount is not “excess” as it is well under the approved project ceiling of \$236 million. The project still has an unobligated balance of \$46 million. Secondly, the obligated amount is not transferred to MoPH or GIROA upon obligation. Rather, disbursements to the MoPH is subject to USAID’s further approvals upon receiving MoPH requests for advances which are followed by the corresponding liquidation reports and are subject to availability of funds. Regarding the use of funds, the Partnership Contracts for Health Services (PCH) program plans on using the current pipeline to achieve the project’s objective of support for the delivery of the Basic Package of Health Services (BPHS) and Essential Package of Hospital Services (EPHS) in 13 provinces through health facilities that are run by NGOs contracted by the MoPH. Obligated funds will achieve PCH objectives in the following ways:

- **Continue to provide the Basic Package of Health Services and the Essential Package of Hospital Services** – All sub-obligations made under PCH directly contribute to USAID/Afghanistan’s Assistance Objective Two: Improved Health of the Population. Continued support for the provision of BPHS and EPHS lead to further significant decreases in the maternal, infant, and under-five mortality rates and increases in contraceptive use.
- **Extension of PCH service delivery contracts** –USAID expects to continue support for the delivery of quality health services through the BPHS and EPHS in a number of provinces during the 2014 Transition and into the Transformation Decade (2015-2024). However, a series of administrative and policy issues based on the proposed implementation plan for USAID’s future health sector support has delayed the approval of the new USAID 2014-2018 Integrated Health Services and System Strengthening Program (IHSSSP). These unplanned delays, coupled with the 12 month or longer procurement timeline for the NGOs, indicate that there would be a significant gap in health care service provision between the services provided under the PCH program and the actual start-up of the new NGO contracts under IHSSSP. In order to secure

and consolidate the significant achievements obtained in the past decade, as well as prevent a damaging gap in the existing levels of healthcare service provision, OSSD has determined that a time extension of the PCH program would be necessary. Accordingly, USAID has approved a one-year extension of PCH. This extension will be funded under the approved PCH ceiling, and does not require funds beyond those already approved.

- **Implementation of the National Salary Policy (NSP)** – Implementation of the NSP going forward will result in increased burn rates as the salaries of personnel paid through PCH are harmonized and increased.
- **Support a new round of Community Midwifery Education** – Procurement of new contracts under PCH for Community Midwifery Education is now underway, and will require additional resources.
- **Plan for lengthy procurement timelines** – Obligation of funds via Implementation Letters (ILs) presents a significant management burden to USAID, the Ministry of Finance, and the Ministry of Public Health. Previous ILs have taken several months to be finalized, and as a result USAID prefers not to wait until 75% of obligated funds are disbursed in order to commence a new obligation of funding.

## SIGAR Response to U.S. Agency for International Development Comments

1. It is the U.S. Agency for International Development's (USAID) position that establishment of the Ministry of Public Health (MoPH) Grants and Contract Management Unit (GCMU) was critical to address USAID's fiduciary and stewardship responsibility and mitigate risks under the Partnership Contracts for Health (PCH) program. While we acknowledge that GCMU was put in place to strengthen the MoPH's capacity to undertake procurement actions using U.S. funds under the PCH program, USAID's own assessment of MoPH in January 2013 concluded that the U.S. government cannot rely on MoPH's systems, operations, and internal controls to manage donors' funds. In making this conclusion, USAID considered not only the April 2012 capability assessment of MoPH, but USAID's internal reviews, meetings, and research on the MoPH's systems. Additionally, the April 2012 ministry capability assessment reviewed the GCMU and noted deficiencies within the unit. Furthermore, USAID's risk schedule prepared in January 2013 for MoPH, in conjunction with the Approval of Partner Country Systems, assigned a score of "critical" to all risks identified as part of USAID's assessment, and it noted that these risks were probable and that the impact of these risks ranged from "serious" to "catastrophic." Therefore, we believe that there is sufficient evidence to conclude that USAID funds provided to MoPH under the PCH program are at a risk of misuse. However, we have made a change to the title based on USAID comments, and do not believe that there is compelling evidence that warrants any further changes to the title of the report.
2. We acknowledge the receipt of additional documentation that USAID provided us, which consists of two spreadsheets supporting the calculation of the initial cost estimate for the PCH program. According to USAID this estimate—prepared on July 16, 2008—was compiled by a USAID implementing partner consultant with GCMU's assistance. Although the two spreadsheets provide the calculation of the estimate, they do not provide evidence of USAID's independent validation of this estimate, as called for under federal cost estimating guidelines. In addition, USAID states that the estimates were derived from historic costs for delivering the Essential Package of Health Services and Basic Package of Health Services. However, USAID did not provide any supporting documentation for those historic costs. Therefore, unless and until USAID provides sufficient and reliable documentation supporting the historical cost figures used in the calculation and evidence of USAID's independent validation of the estimate we believe our recommendation should be implemented.
3. USAID noted that it has been coordinating with the MoPH since May 2013 to comprehensively address the deficiencies identified in the April 2012 ministry capability assessment. Specifically, USAID stated that MoPH-GCMU has reported that to date, the Ministry mitigated 22 of the 55 action items addressing the risks identified in the capability assessment. USAID added that it will "validate the 22 reportedly completed action items by the end of September 2013" and will "confirm and verify the completion of the remaining action items by the end of November 2013." While we acknowledge that USAID has started coordinating with the MoPH on the Ministry's action plan to address the deficiencies identified in the capability assessment, it has not verified the actions that MoPH-GCMU claims to have completed. Therefore, we believe that making future MoPH funding contingent upon successful completion of the established milestones is a necessary measure to hold MoPH accountable for the implementation of those important safeguards. We will follow up with USAID at the end of November 2013 to obtain documentation on USAID's complete verification of MoPH's actions and will then determine whether it is appropriate to close this recommendation.
4. USAID stated that it has validated the funds obligated and expended under the PCH program since its inception and has determined that there are no excess funds to de-obligate. USAID added that the current pipeline of funds will be required to cover the estimated costs of a 1 year extension of the PCH contracts, through October, 2014. However, a significant amount of funds still remain to be expended under the program—\$49 million as of August 1, 2013. Additionally, only \$190 million of the program's

\$236 million cost ceiling has been obligated, resulting in about \$46 million still available for use if necessary. Therefore, we believe that it is not appropriate to close the recommendation. We will reexamine the PCH program funding in October, 2014, which is closer to the program's completion date and determine, at that time, whether USAID has taken the appropriate action and whether closure of this recommendation is appropriate.

## APPENDIX III - ACKNOWLEDGMENTS

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