



USAID
FROM THE AMERICAN PEOPLE

OFFICE OF INSPECTOR GENERAL

**AUDIT OF USAID'S START-UP
OF THE SUPPLY CHAIN
MANAGEMENT SYSTEM FOR
THE PRESIDENT'S
EMERGENCY PLAN FOR AIDS
RELIEF**

AUDIT REPORT NO. 9-000-07-005-P
FEBRUARY 8, 2007

WASHINGTON, DC



USAID
FROM THE AMERICAN PEOPLE

Office of Inspector General

February 8, 2007

MEMORANDUM

TO: GH/OHA Director, S. Ken Yamashita

FROM: IG/A/PA Director, Steven H. Bernstein /s/

SUBJECT: Audit of USAID's Start-Up of the Supply Chain Management System for the President's Emergency Plan for AIDS Relief (Report No. 9-000-07-005-P)

This memorandum transmits our final report on the subject audit. In finalizing our report, we considered your comments on our draft report and have included your response in its entirety in Appendix II. This report does not include any recommendations.

I want to express my sincere appreciation for the cooperation and courtesy extended to my staff during the audit.

CONTENTS

Summary of Results	1
Background	2
Audit Objective	3
Audit Findings	4
Evaluation of Management Comments	10
Appendix I – Scope and Methodology	11
Appendix II – Management Comments	12

SUMMARY OF RESULTS

The Performance Audits Division of the Office of Inspector General (OIG) conducted this audit to determine whether USAID's Supply Chain Management System achieved its key activities in its first year (see page 3).

USAID's Supply Chain Management System generally achieved key activities in its first year (see page 4). Based on the results of this audit, we are not making any recommendations (see page 9).

Management agreed with the audit findings that the Supply Chain Management System has generally achieved key activities during this first year (see page 10). Management comments are included in their entirety in Appendix II (see page 12).

BACKGROUND

Congress enacted legislation to fight HIV/AIDS internationally through the President's Emergency Plan for AIDS Relief (Emergency Plan). The \$15 billion, 5-year program provides \$9 billion in new funding to speed up prevention, care, and treatment services in 15 focus countries.¹ The Emergency Plan also devoted \$5 billion over five years to bilateral programs in more than 100 countries and increased the U.S. pledge to the Global Fund² by \$1 billion over five years. One of the greatest challenges facing HIV/AIDS programs in resource-limited settings is the lack of adequate medicines, HIV tests, and other essential health supplies for preventing and treating HIV and AIDS. The reasons for these shortages include lack of money, inadequate experience in estimating commodity needs, inefficient procurement systems, and weak infrastructures for the storage and distribution of commodities.

As part of the Emergency Plan, the Supply Chain Management System (SCMS) project was established in September 2005 to provide global procurement and distribution for essential HIV/AIDS medicines and supplies. The SCMS is designed to provide one-stop shopping for HIV/AIDS supplies and supply-related services for use by HIV/AIDS programs funded by the Emergency Plan. The products to be supplied include a wide variety of medicines, medical and laboratory supplies, and medical equipment for adult and pediatric care and treatment. The approach of the SCMS project is based on aggregated purchasing on behalf of HIV/AIDS care and treatment programs. By creating a consolidated procurement mechanism, SCMS can leverage economies of scale, providing the best value and increasing efficiency while improving coordination between suppliers and recipients.

The SCMS project team is lead by the Partnership for Supply Chain Management (Partnership), a nonprofit organization established by JSI Research & Training Institute and Management Sciences for Health. The project team includes 17 institutions, including nonprofit organizations, commercial private sector corporations, academic institutions, and faith-based organizations, that aim to ensure that high-quality antiretroviral drugs, HIV tests, and other supplies for treating HIV/AIDS are available to the people (e.g., patients, clinicians, laboratory technicians, etc.) who need them.

USAID signed a contract with the Partnership on September 27, 2005. The Task Order number 1 issued under the contract has a total estimated cost of about \$586 million over three years for the procurement and distribution of medicines and other needed commodities, technical assistance, and system operating expenses. The contract has work plans that are flexible and can be revised.³ As of September 30, 2006,

¹ Twelve countries in Africa (Botswana, Côte d'Ivoire, Ethiopia, Kenya, Mozambique, Namibia, Nigeria, Rwanda, South Africa, Tanzania, Uganda, and Zambia), and three other countries (Guyana, Haiti and Vietnam).

² The Global Fund is a public-private partnership that raises money to fight AIDS, tuberculosis and malaria.

³ For example, when we started our audit work, the work plan version was 3.8, dated April 14, 2006, and the current version is version 4.0 dated July 12, 2006.

approximately \$123 million had been obligated. Task Order number 1 has an estimated completion date of September 29, 2008.

Project clients could be any HIV/AIDS program funded by the Emergency Plan, such as ministries of health, nongovernmental organizations, and faith-based organizations. Participation is voluntary and the clients can use services selectively depending on the needs of the country and program. The SCMS is designed to build upon existing health systems and processes, while also helping to foster new capacity and new capabilities. The SCMS project supplements and strengthens existing supply chain capacity, and is available as an option to “fill in the gaps” and monitor key steps in the supply chain process. The SCMS also offers services such as commodity quantification, procurement, and shipping and delivery to points of service.

AUDIT OBJECTIVE

The Performance Audits Division conducted this audit as part of the Office of Inspector General’s fiscal year 2006 audit plan, and to answer the following question:

- Did USAID’s Supply Chain Management System achieve its key activities in its first year?

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

AUDIT FINDINGS

USAID's Supply Chain Management System (SCMS) generally achieved key activities in its first year, as noted in the following table.

EXPECTED TO ACTUAL ACCOMPLISHMENT FOR KEY ACTIVITIES

Key Activity ⁴	Expected Accomplishment	Actual Accomplishment	Status (Exceeded, Met, Partially Met, Not Met)
(1) Initial country visits	15 focus countries	15 focus countries plus Zimbabwe	Exceeded
(2) Establishing in-country SCMS presence	7 SCMS country offices	10 country offices	Exceeded
(3) Quantification of country demand	7 countries	6 countries	Partially Met
(4) Placing commodity orders	6 countries	8 countries	Exceeded
(5) Development of procurement strategy and policies	Completion	Completed	Met
(6) Development of vendor Indefinite Quantity Contracts (IQCs)	Number of IQCs unspecified	None	Not Met
(7) Development of initial e-catalog	Development of initial version	Initial version developed	Met
(8) Execution of primary Regional Distribution Center (RDC) contracts	RDC contracts executed	IQC signed; RDC task orders unsigned	Partially Met
(9) Delivering first order	First order delivered	First order delivered	Met

This report will discuss SCMS's achievement of the above key activities in the following section.

(1) The SCMS exceeded its goal of making initial country visits to all 15 of the President's Emergency Plan for AIDS Relief (Emergency Plan) focus countries (see footnote 1), as it visited those countries, and additionally visited Zimbabwe, a non-focus country.

(2) The SCMS responded to missions' requests for long-term technical assistance by opening 10 country offices, which are three more than the seven originally planned.

⁴ The source for the selected key activities is the FY 2006 Annual Work Plan, as revised.

(3) The SCMS partially completed its goal to quantify antiretroviral (ARV) demand⁵ in seven countries, as it quantified demand in six countries (Mozambique, Zambia, Nigeria, Guyana, Haiti, and Rwanda) by the September 30, 2006, cutoff date. In addition, from September 30, 2006 until mid-December 2006, ARV demand was also quantified for Cote d'Ivoire and Tanzania. The SCMS reported that, in some instances, it received assistance from two other USAID mechanisms, DELIVER and RPM Plus,⁶ and developed the quantification in close cooperation with host-country organizations. Demand quantification was one of the many technical activities conducted the first year by the SCMS project.

(4) The SCMS exceeded its goal to complete commodity orders for six countries, since it completed commodity orders in eight countries. In its first year, SCMS placed about \$7 million in commodity orders on behalf of country programs and an additional \$1 million to stock the Ghana RDC, as shown in the following table.

PROCUREMENT BY COUNTRY OR RDC

Country/RDC	Product Category	Cost ⁷
1 – Botswana	Other (Infant Formula)	\$156,312
2 – Côte d'Ivoire	Antiretroviral Medicines	3,421,948
2 – Côte d'Ivoire	HIV Test Kits	161,684
2 – Côte d'Ivoire	Laboratory Supplies	1,299,623
3 – Guyana	Laboratory Supplies	9,489
4 – Haiti	HIV Test Kits	79,615
5 – Nigeria	Antiretroviral Medicines	8,655
5 – Nigeria	HIV Test Kits	127,500
6 – Rwanda	Laboratory Supplies	68,034
7 – Vietnam	Antiretroviral Medicines	1,390,314
8 – Zambia	HIV Test Kits	220,000
Subtotal-country programs (8)	Various	\$6,943,174
Regional Distribution Center-Ghana	Various	\$1,062,762
Total for FY 2006		\$8,005,936

The SCMS also saved funds by eliminating unneeded procurement. For example, in Haiti, the SCMS project realized that, based on the national quantification it conducted,

⁵ SCMS is also involved in quantifications for test kits, lab supplies and many other items, and this process will continue for the duration of the contract.

⁶ The Rational Pharmaceutical Management Plus (RPM+) Cooperative Agreement, implemented by Management Sciences for Health, aims to improve the availability and use of commodities of assured quality for USAID priority interventions, and addresses health system reform issues. DELIVER, a contract managed by John Snow, Incorporated, provides technical assistance for supply chain improvements for HIV/AIDS and other health-related delivery systems.

⁷ The amounts were based on purchase orders issued to suppliers prior to September 30, 2006, and were not audited.

the current inventory of Emergency Plan ARVs would supply the project's treatment sites for approximately 15 months, and that an immediate procurement of ARVs was not necessary.

The SCMS has been very responsive to countries' requests for emergency shipments of HIV/AIDS commodities. For example,

- The SCMS responded to an emergency request from Côte d'Ivoire⁸ for ARV medications. Upon notification that the inventory of two particular ARVs was not sufficient to meet demand, SCMS delivered the ARVs, preventing a stockout situation that could have led to interruptions of treatment for patients.
- On September 14, 2006, the U.S. government team in Haiti asked the SCMS to assist with an emergency procurement of HIV test kits to prevent a potential stockout. Promptly, SCMS placed an order with local vendors. The next day, over 16,000 HIV/AIDS test kits were delivered to a warehouse in Port au Prince. Four days after the request, the kits were being distributed to the HIV testing sites needing the kits.
- On September 28, 2006, an emergency shipment of ARVs was delivered to the U.S. Department of Defense in Nigeria to ensure an adequate supply of ARV stocks for the HIV/AIDS care and treatment programs that serve local staff and their families. Based on the quantification SCMS conducted in August, future procurements are planned. SCMS was successful in clearing this consignment through Nigerian customs in Abuja within one working day.

(5) The SCMS has finalized its procurement strategy and policies. Since the approach of the SCMS project is based on aggregated purchasing on behalf of HIV/AIDS programs, the procurement strategy and policies are key to the project's success. Among SCMS key policies are:

- to procure the maximum possible amount of product via Indefinite Quantity Contracts (IQCs), thereby reducing transaction costs and building long-term relationships with vendors, to ensure reliable supply at the best value,
- to appoint more than one IQC holder for any one product or group of products to reduce, to the extent possible, the risk of over-dependency on any one vendor, and
- to not procure more than a specific percentage⁹ of any one vendor's total annual capacity, and to not rely on any one vendor's need to increase annual capacity by more than a specific percentage in any one year, to contain risk wherever possible.

⁸ As noted in the above table, about sixty percent of the total procurement dollars were for Côte d'Ivoire. As explained to us by the SCMS project, due to the civil unrest, programs had been less able to plan and thus approached SCMS for emergency orders, and later, regular shipments.

⁹ To protect ongoing and future negotiations, we do not publish these percentages in this report, which will become public upon its release.

(6) Although the SCMS had planned to have some IQCs with vendors of antiretrovirals and HIV test kits in place by September 30, 2006, none had been completed by that date. The SCMS stated that no IQCs had been signed by September 30, 2006, since it delayed the issuance of a Request for Quotations due to (a) continuing negotiations for emergency purchases to prevent stockouts, and (b) further work to define purchase volumes under the IQCs.

The SCMS intends to establish IQCs for all Vital¹⁰ items and the majority of Essential items. Prices agreed in the IQCs will be published in the e-catalog (see next key activity). Items procured under the IQCs will be stocked in the RDCs or will satisfy client demand directly.

IQCs facilitate the procurement process by:

- enabling manufacturers to better plan their production and increase efficiency,
- establishing pricing mechanisms which reduce the time spent negotiating prices, and
- allowing clients to plan for their ARV needs with realistic and more affordable prices.

The SCMS reports that as of mid-December, it has completed negotiations¹¹ with two test kit manufacturers, and has agreed to the contract terms, but is still negotiating on prices and volumes with two additional test kit manufacturers. Additionally, SCMS expects to conclude negotiations in December with generic ARV manufacturers in India.

We do not believe the non-accomplishment of this activity by September 30, 2006 negatively affected USAID's progress in implementing the SCMS project.

(7) The SCMS has produced its initial e-catalog, listing antiretrovirals (ARVs), tests kits and other commodities. SCMS will add additional functionality and data in future versions. Depending on feedback SCMS receives from actual e-catalog users, these changes might include the addition of:

- prices (for products under long-term IQC contracts),
- the ability to electronically request quotes from SCMS,
- additional product specification details,
- pictures (where appropriate to the item),
- indications where drugs are registered for use, and
- linkages to external product information websites.

¹⁰ The SCMS project has categorized the products as Vital, Essential, and Necessary. Vital products are items such as ARVs, rapid test kits and the approximately 20 most commonly used drugs. Essential products are primarily other drugs and some laboratory items. Necessary products are items for which the SCMS project cannot predict the demand or items of equipment that are one-time purchases.

¹¹ After negotiations with a vendor are complete, the SCMS writes up IQC contracts for USAID's approval before they become effective with the vendors.

(8) The SCMS planned to have all Regional Distribution Center (RDC) contracts signed by September 30, 2006. The IQC that covered the three RDCs (Accra, Ghana; Johannesburg, South Africa; and Nairobi, Kenya) was signed by the Partnership for Supply Chain Management by September 30, 2006. The IQC listed the RDC locations in one of its attachments. However, the related task orders for all three RDCs were signed after September 30, 2006. Although the task orders were signed after September 30, 2006, the SCMS established RDCs in Ghana and South Africa in August and November 2006, respectively, and expects to have the RDC in Kenya operational by late December 2006. The establishment of RDCs is important because the storage facilities allow SCMS to hold inventory closer to the point of use, and to provide smaller and more frequent shipments to recipients, thereby reducing the burden on the local infrastructure to make emergency purchases to prevent stockouts.



Photograph of the Ghana Regional Distribution Center, taken August 2006, and submitted by the Supply Chain Management System project.

In summary, the status of the three RDCs is as follows:

- The RDC in Ghana, shown above, received its first shipment of ARVs in August 2006. The SCMS project reported that the RDC's stock holding as of September 30, 2006 was \$1,062,762. The SCMS project reported that shipments from the RDC in Ghana to recipient countries as of late November 2006 amounted to more than \$725,000.

- The RDC in South Africa opened in November 2006 and the facility is currently being stocked. An additional bonded facility, with a larger storage capacity, is expected to open in December 2006. The SCMS project plans to stock these two facilities with an inventory of approximately \$7.3 million by February 2007.
- The SCMS is preparing a facility in Kenya as an RDC, which should be operational by the end of December 2006. The SCMS project expects the facility to be fully stocked with an inventory of \$5 million by March 2007.

(9) The SCMS shipped its first order, for HIV test kits, to Côte d'Ivoire (see page 6). The shipment arrived on May 2, 2006.

As previously discussed, USAID's SCMS generally achieved key activities in its first year. Since USAID's SCMS generally achieved key activities in its first year, and the audit found no problem areas that needed improvement, this report does not include any recommendations.

EVALUATION OF MANAGEMENT COMMENTS

Management agreed with the audit finding that the Supply Chain Management System has generally achieved key activities during this first year.

Management comments are included in their entirety in Appendix II.

SCOPE AND METHODOLOGY

Scope

The Office of Inspector General conducted this audit in accordance with generally accepted government auditing standards. The fieldwork was performed between May 26, 2006 and December 15, 2006 at USAID and at the Partnership for Supply Chain Management (Partnership) offices in Arlington, VA. The audit covered activities under the Supply Chain Management System (SCMS) project from September 27, 2005 through September 30, 2006. The amount obligated as of September 30, 2006 was approximately \$123 million.

As this audit focused on determining whether USAID's Supply Chain Management System achieved key activities in its first year, we did not conduct field visits to warehouses or other physical locations, or perform tests of specific transactions. However, we cross-compared selected data from different documents. For example, we compared data from performance reports to data contained in trip reports, as well as procurement data from the project's annual report to information obtained from the Partnership.

Since this audit focused on the startup of SCMS activities, our assessment of USAID's internal controls was limited. We identified internal controls such as USAID's process for monitoring SCMS's progress and reporting, and SCMS's implementation of policies and procedures to increase the likelihood of meeting its objectives.

Methodology

We judgmentally identified and reviewed key activities related to procurement, storage and distribution of commodities, such as conducting initial country visits, quantifying country demand, having indefinite quantity contracts in place, and establishing regional distribution centers. We determined to what extent USAID's SCMS had achieved key activities as of September 30, 2006, as established under the revised work plan dated July 12, 2006.¹²

In planning and performing our audit work, we reviewed the USAID contract with the Partnership to determine the Partnership's responsibilities in its implementation of the SCMS project. We reviewed performance reports, trip reports, and SCMS's internal policies. We also had various meetings with USAID's Bureau for Global Health and Partnership officials.

The materiality threshold for this audit was such that, if any situation came to our attention that would negatively affect USAID's progress in implementing the SCMS project, it would have been a reportable finding.

¹² The USAID Cognizant Technical Officer and the SCMS contractor discussed activities to be included in the work plan. The Cognizant Technical Officer approved the revised work plan.

MANAGEMENT COMMENTS



January 22, 2007

MEMORANDUM

TO: IG/A/PA, Steven H. Bernstein, Director

FROM: GH/OHA, S. Ken Yamashita, Director/s/

SUBJECT: Management Comments on the draft audit of USAID's Start-Up of the Supply Chain Management System for the President's Emergency Plan for AIDS Relief (Report No. 9-000-07-00X-P)

This memorandum transmits the Office of HIV/AIDS' response to the draft audit report titled "Audit of USAID's Start-Up of the Supply Chain Management System for the President's Emergency Plan for AIDS Relief" (Report No. 9-000-07-00X-P), dated December 21, 2006.

Background

From May to December 2006, USAID/OIG performed an audit on the start-up of the Supply Chain Management System project established in September 2005 to provide global procurement and distribution for essential HIV/AIDS commodities. The audit objective was to determine if USAID's Supply Chain Management System achieve its key activities in its first year?

Comments

Our office agrees with the audit findings that the Supply Chain Management System has generally achieved key activities during this first year. We also agree that SCMS has been responsive to country needs. As the audit report included no recommendations, our comments are limited to the above.

We appreciate the efforts made by your team and feel the audit process helped to strengthen the start-up of this important project. As discussed at the exit conference, we look forward to working with your team on future audits of the project.

U.S. Agency for International Development
Office of Inspector General
1300 Pennsylvania Ave, NW
Washington, DC 20523
Tel: (202) 712-1150
Fax: (202) 216-3047
www.usaid.gov/oig