



USAID
FROM THE AMERICAN PEOPLE

OFFICE OF INSPECTOR GENERAL

AUDIT OF USAID'S AVIAN INFLUENZA EFFORTS

AUDIT REPORT NO. 9-000-07-007-P
June 8, 2007

WASHINGTON, DC



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Office of Inspector General

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MEMORANDUM

TO: Director, Bureau for Global Health, Avian and Pandemic Influenza Management and Response Unit, Dennis Carroll

FROM: Director, Performance Audits Division, Steven H. Bernstein /s/

SUBJECT: Audit of USAID's Avian Influenza Efforts (Report No. 9-000-07-007-P)

This memorandum transmits our final report on the subject audit. In finalizing the report, we considered your comments on our draft report and have incorporated them, where appropriate. We have included your comments in their entirety as Appendix II.

The report contains ten recommendations intended to improve the implementation of USAID's avian influenza activities. Based on your comments and the documentation provided, we consider that final action has been taken on Recommendation Nos. 7 and 9 and that management decisions have been reached on all of the remaining recommendations. A determination of final action for Recommendations Nos. 1 through 6, 8, and 10 will be made by the Audit Performance and Compliance Division (M/CFO/APC) upon completion of the proposed actions.

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

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SUMMARY OF RESULTS

The Performance Audits Division of USAID's Office of Inspector General designed this audit to determine what progress USAID was making in conducting selected mandatory activities to address the threat of avian influenza.

Although the Bureau for Global Health's Avian and Pandemic Influenza Management and Response Unit (AI Unit) has achieved some progress in conducting some of its mandatory activities to address avian influenza, the Agency faces formidable challenges that increase the risks that it will not be able to conduct some of its mandatory activities in a timely manner. USAID has made notable progress in conducting some of its mandatory activities to address the threat of avian influenza in a relatively short timeframe since October 2005. Specifically, the AI Unit has achieved some successes in coordinating much of its work with multiple international and national implementers to provide avian influenza commodities, developing its first disease surveillance and response program in Indonesia, and developing a monitoring and evaluation plan to ensure the quality of its performance indicators. In addition, the AI Unit has reported successes in other mandatory activities that include strengthening foreign governments' capacity for rapid outbreak response, intensive national communications campaigns that include the print and broadcast media, and education and training for animal and human health professionals and volunteers.

Nevertheless, the AI Unit will need to strengthen management controls over several aspects of its program. Specifically, the AI Unit has not established management controls to ensure that program expectations are defined and communicated to other accountable USAID stakeholders (see page 10); and has not been apprised of commodity expenditures to ensure that obligations are limited to required program needs in a timely manner, as well as has not verified financial information in its office database to information contained in USAID's core financial management system (see pages 12 and 14). Moreover, the AI Unit should improve its commodity stockpile management so that appropriate protective and decontamination equipment is procured, stored, and deployed worldwide in a timely manner (see page 16). The AI Unit has not inspected the commodity stockpile to ensure that some dated products are available to be used to avoid spoilage and/or waste (see page 19). In one instance, USAID has not been timely in responding to a request for emergency commodities (see page 21). Lastly, the AI Unit has not established sufficient management controls over its commodity transfers of ownership (see page 23).

We have developed ten recommendations to address the above-mentioned issues. We recommend that the AI Unit develop an intra-agency agreement to communicate and document programmatic expectations with other USAID stakeholders (see page 12); determine the amount of unneeded unliquidated obligations for avian influenza commodities and deobligate what has not already been deobligated to date (see page 14); establish a schedule for conducting deobligation reviews to determine whether unexpended obligated funds can be put to better use (see page 14); apply accounting principles consistently to ascertain that obligations and expenditures recorded in its

office financial database agree with USAID's core financial management system (see page 16); ensure that accruals to its internal financial database are submitted on the same schedule as that utilized by USAID's core financial management system (see page 16); determine the optimal staging areas for its commodities in order to meet established criteria (see page 19); review the commodities requirements that the office plans to use in combating avian influenza (see page 21); review its commodity stockpile inventory to ensure that adequate product shelf life exists and document a plan for final disposition accordingly (see page 21); develop a strategy for the deployment of emergency avian influenza commodities within established timeframes (see page 23); and develop procedures to adequately document transfers of ownership of avian influenza commodities (see page 25).

BACKGROUND

Avian influenza, “bird flu,” and H5N1 Influenza A virus are commonly used names for the highly contagious viral disease that afflicts birds. Since the reemergence of the disease in Southeast Asia in 2003, it has spread across Asia to Europe and Africa, as shown in Appendix III. As a result, between February and April 2006, the number of countries reporting bird flu in animals was more than double the number of countries reporting similar cases between 2003 and 2005. More than 220 million birds have died from the disease, either directly from infection or indirectly from culling efforts for containing and preventing further spread of bird flu. This situation not only threatens the livelihoods of poultry farmers, but also economic growth and overall sustainable development.

Because of the rapid spread of bird flu, concern is growing that if the virus evolves into a form that can be transmitted efficiently between humans, then the result could be a global human pandemic with the potential to kill millions of people. Since 2003, animal outbreaks have been reported in 55 countries. In 11 countries, officials have confirmed 274 human cases, 61 percent of which have been fatal. Given the rapid spread of bird flu and its effect on the international community, the U.S. Government developed an *Implementation Plan for the National Strategy for Pandemic Influenza (the Plan)* in May 2006 to address the threat of pandemic influenza.

The Plan identifies ten major objectives with specific or mandatory activities internationally, in which nine U.S. Government agencies, including USAID, are responsible to achieve within 6 to 18 months from the date that the Plan was published. USAID, which plays a critical role in establishing a bridge between the human-health and animal-health sectors to ensure a comprehensive international response to the threat of bird flu, has a budget of more than \$191 million¹ to be used for its bird flu activities. Within *The Plan*, USAID is a responsible primary agency for activities that include the following:

- Develop communications campaign networks to increase public awareness;
- Disseminate information on animal vaccine efficacy and application strategies; and assist other countries in establishing national prevention and response plans;
- Design a model compensation plan and improve animal diagnostic laboratory capacity, ensuring that all priority countries have access to laboratories for screening bird flu specimens to confirm diagnoses;
- Expand animal surveillance in priority countries;
- Support animal health activities;
- Ensure that priority countries have rapid access to assessment and response teams;
- Ensure that priority countries receive deployment assistance; and

¹USAID received three appropriations. These appropriations included \$131.5 million from an emergency supplemental appropriation in December 2005; \$30 million in a June 2006 supplemental appropriation; and \$10 million from an emergency supplemental appropriation for Asian Tsunami relief. In addition, USAID reprogrammed about \$13.4 million from other Agency programs and the Department of State provided \$6.3 million to USAID from its FY 2005 Tsunami Relief and Reconstruction Funds.

- Document technical assistance rendered.

Established in October 2005 at USAID, the Bureau for Global Health's Avian and Pandemic Influenza Management and Response Unit (AI Unit), is responsible for the management and oversight of USAID's bird flu activities by providing direct technical and program support to regional bureaus and field missions. As of December 2006, USAID's total budget for bird flu activities has been \$191 million to be used for (1) commodities, (2) surveillance (both animal and human), (3) response (both animal and human), (4) communications, and (5) preparedness activities in the 19 priority countries as well as other countries around the world.² In addition, USAID's Office of Foreign Disaster Assistance (OFDA) has bird flu-related responsibilities. When the U.S. Congress appropriated about \$131.5 million in supplemental funding, this funding included about \$56.3 million that was earmarked within the International Disaster and Famine Assistance (IDFA) account for the "pre-positioning and deployment" of necessary commodities to combat bird flu in FY 2006.³ In accordance with this legislation, OFDA is responsible for managing and implementing IDFA funds, which includes coordination with the AI Unit to develop and deploy a commodity stockpile.

AUDIT OBJECTIVE

As a part of its annual plan, the Office of Inspector General's Office of Performance Audits Division conducted this audit as the first audit of USAID's avian influenza activities. The audit was designed to answer the following audit objective:

- What progress is USAID making in conducting selected mandatory activities to address the threat of avian influenza?

Appendix I includes the details of the audit's scope and methodology.

² The 19 priority countries are listed in Appendix IV.

³ Of the \$56.3 million appropriated for commodities, \$53.8 million had been obligated at December 11, 2006. These obligations are detailed in Appendix VI.

AUDIT FINDINGS

As of February 21, 2007, the AI Unit has reported some notable progress in some of its mandatory activities designed to ensure timely and reliable reporting of suspected bird flu outbreaks that will facilitate more rapid and effective response in 54 countries and regional programs globally. These mandatory activities include such things as improving early warning capacity and bird surveillance, strengthening foreign governments' capacity for rapid outbreak response, supporting intensive national communications campaigns that include the print and broadcast media, and educating and training animal and human health professionals and volunteers. While nine U.S. Government agencies have responsibilities managing and overseeing some federally-mandated bird flu activities internationally, USAID's Bureau for Global Health's Avian and Pandemic Influenza Management and Response Unit (AI Unit) has been responsible for providing direct technical and program support to the regional and field missions abroad. Specifically, the AI Unit's worldwide responsibilities include mandatory activities in the areas of (1) commodities, (2) surveillance (both animal and human), (3) response (both animal and human), (4) communications, and (5) preparedness. Our audit focused on commodities, since this represented USAID's largest commitment of bird flu funds. In Indonesia, which has experienced the highest number of fatalities attributable to bird flu, our audit included mandatory surveillance and response activities. The audit found that the AI Unit has made progress in coordinating much of its work with multiple international and national implementers to provide bird flu commodities, establishing a surveillance and response program in Indonesia, and developing a monitoring and evaluation plan to ensure the quality of its performance indicators.

Although USAID has made some notable progress in rapidly implementing mandatory activities to address the threat of bird flu in specific countries globally, the AI Unit has not established sufficient management controls over various program activities to ensure that the Agency will conduct its mandatory activities in both an efficient and a timely manner. Part of the difficulties that the AI Unit has experienced are directly attributable to USAID's use of a participating agency program agreement (PAPA) implemented by USAID's Office of Foreign Disaster Assistance (OFDA) for certain bird flu activities. A PAPA, unlike a contract, allows another U.S. Government agency to implement a defined program with relatively little day-to-day direction or supervision from USAID. Specifically, the AI Unit has not established management controls to ensure that program expectations are defined and communicated to other accountable USAID stakeholders. In this regard, the AI Unit has not developed an intra-agency agreement to maximize its program oversight over activities to be accomplished through its use of a pre-existing agreement administered by the Office of Foreign Disaster Assistance. In addition, the AI Unit has not fulfilled its basic fiduciary responsibilities for reviewing expenditure reports to ensure that obligations are limited to required program needs. For example, as of December 2006, approximately \$19 million obligated for commodities has not been expended that could have been deobligated and put to better use for unfunded avian influenza activities that were needed. In addition, AI Unit officials did not verify financial information in its office database against information contained in USAID's core financial management system to ensure that accounting principles were applied consistently to present the most accurate up-to-date financial information.

To accomplish much of USAID's work, OFDA, operating on behalf of the AI Unit, modified a pre-existing agreement with another federal agency to procure, store, and ship the bird flu commodities. Although modifications to the agreement documented the actions required, weak management controls, the form of the pre-existing agreement, and the lack of transparent communication between the two offices involved have hindered effective stockpile management, the timeliness of an emergency shipment, transfers of commodity ownership, and a thorough review of the commodity stockpile requirements.

Since October 2005, USAID has budgeted approximately \$191 million to conduct activities in five key areas that include stockpiling non-medical commodities, surveillance (both animal and human), response (both animal and human), communications, and preparedness as illustrated in Appendix V. Of the total amount budgeted at USAID, OFDA, working on behalf of the AI Unit, has incurred the single largest commitment for the procurement of commodities and logistical support activities valued at approximately \$56.3 million. These commodities include such items as protective clothing and decontamination equipment that is to be used by USAID implementers overseas to combat the spread of the bird flu virus.

Although USAID's largest obligation of appropriated funds was for bird flu commodities that included 1.5 million personal protective equipment (PPE) kits, AI Unit managers have not developed a deployment schedule to transfer the commodities from a stateside warehouse to regional stockpile warehouses overseas, as originally planned. In fact, USAID has only shipped about 250,000 PPE kits and maintained an inventory of about 1.3 million PPEs that was relocated in December 2006.

The AI Unit has achieved successes in coordinating much of its work with multiple international and national implementers, as well as continuing the development of a monitoring and evaluation plan to ensure the quality of its performance indicators. However, many of USAID's efforts may be diminished because of the lack of strong political commitment abroad as well as the lack of funding to compensate poultry farmers who suffer losses due to the bird flu virus.

The following nine sections address in more detail USAID's successes and challenges in carrying out its bird flu activities. The first two sections discuss some of the notable successes that USAID has achieved in implementing a disease surveillance and response program and developing a monitoring and evaluation plan for assessing its bird flu activities. The last seven sections address some of the challenges that USAID has faced in its bird flu efforts, most prominently in managing the commodity stockpile. The AI Unit expects that most of these challenges will be met with the recent award of a task order to a new contractor for managing the commodity stockpile and providing the necessary informational and logistical support.

Avian Influenza Unit Made Progress in Starting and Expanding Surveillance and Response Program in Indonesia

In May 2006, the U.S. Homeland Security Council's *Implementation Plan for the National Strategy for Pandemic Influenza* established USAID as a lead U.S. Government agency for helping design a comprehensive program for bird flu containment, which included a program for compensation and poultry vaccination, within 6 to 18 months. In Indonesia, USAID funded a \$1.5 million grant to the United Nations' Food and Agriculture Organization (FAO) to implement a pilot animal sector early warning surveillance and rapid response project in 12 districts on the island of Java in October 2005. USAID expanded the project during FY 2006 to cover 159 districts encompassing the entire islands of Java, Bali, and two provinces on the island of Sumatra at an estimated cost of \$4 million. Although the Governments of Japan and Australia also contributed to the project, the U.S. Government funded approximately two-thirds of the overall project cost.

To implement the pilot project and improve upon the Government of Indonesia (GOI) animal containment strategy, USAID/Indonesia works in collaboration with the World Bank, the FAO, and other implementers. In this regard, the Mission provided personal protective equipment and decontamination kits to be used in the project for surveillance and response activities.

As one of the AI Unit's major achievements in Southeast Asia, the AI Unit, through USAID/Indonesia, has developed and implemented the first early warning system within USAID called the Participatory Disease Surveillance/Participatory Disease Response Program (PDS/R). USAID/Indonesia relies on the PDS/R to serve as a mechanism to obtain initial notifications from backyard poultry producers to track and respond to suspected bird flu outbreaks.

In Indonesia, the PDS/R is carried out by two-person teams. The teams' actions are the first step in determining whether the suspect poultry is infected with the bird flu virus. Initially, the Participatory Disease Surveillance (PDS) team responds to farmers who have reported suspected outbreaks by conducting interviews with the farmer and the farmer's family members for obtaining pertinent data to help assess the likelihood that the suspected outbreak is due to the bird flu virus. During the surveillance, the team maps the area of the suspected outbreak using a hand-held global positioning system device, and attempts to determine the source and the current location of the infected poultry. If the suspect poultry is available for diagnostic testing, the team will extract a fecal sample from a sick or dead bird to test for the Influenza A virus using a rapid antigen test kit.⁴ If a bird tests positive for the influenza A virus in a geographic location where there has been high poultry mortality, the PDS team confirms a probable bird flu event.

⁴ Influenza viruses are grouped into three types – A, B, and C. The H5N1 virus, or “bird flu,” is a subtype of the Influenza A virus. Therefore, if the suspected poultry tests negative for Influenza A, it does not have bird flu.



AI Unit photo from FAO showing chickens with pale and droopy combs. These birds are suffering from severe depression in an acute phase of the virus.

After the PDS team completes its work, they notify a Participatory Disease Response (PDR) team that is requested to respond to the outbreak area within 24 hours of the confirmation. The PDR has worked well in Indonesia in controlling active outbreaks when the community has agreed or consented to using standard operating procedures that require a three-ringed response strategy. First, the PDR team recommends that the farmers begin “focal culling.” Focal culling means identifying, destroying, and removing only those birds that are sick and infected or those birds that have had contact with the sick or infected birds. A critical component of focal culling is that it be accompanied by immediate financial compensation to affected backyard poultry producers. Secondly, as the next ring of the strategy, the PDR team recommends increased biosecurity measures, such as caging birds and segregating newly-purchased chicks from the existing flock. Lastly, as the third ring of the strategy, the PDR team recommends vaccinating the entire flock of birds, which would be performed by a trained community member. Considering the importance of immediate compensation in the overall PDS/R strategy, focal culling without immediate compensation is estimated to occur in few instances in the country of Indonesia – only about 15 percent of the time – according to a best-case estimate of one FAO representative.

While the PDS/R Program has been successful in selected regions within Indonesia, USAID/Indonesia officials and other stakeholders have not finalized a compensation program document. USAID officials expect that the plan will include focal culling with immediate compensation. According to a Mission official, the GOI strategy has focused on poultry vaccination without compensating affected backyard farmers because the GOI lacks funds for this purpose. To address this issue, USAID, the World Bank, FAO, and the GOI are developing a pilot project to support full funding of compensation and vaccination in several pilot districts. Until the issue of compensation is resolved, according to a U.S. Government official, the transition from surveillance to response to eradicate the bird flu virus will remain challenging.

In order for USAID and its stakeholders to be successful in efforts to eradicate the bird flu virus in affected countries, backyard farmers will need to receive immediate compensation for poultry losses resulting from bird flu. Inasmuch as a model compensation program has not been implemented in Indonesia as of March 2007 and since the GOI has only provided limited compensation to backyard poultry farmers who suffer losses due to bird flu, it is doubtful that the U.S. Government program can be timely in its efforts to eradicate the disease locally in the near future. Major obstacles and lack of strong political commitment at the central and local levels of government within the region continue to limit the progress of optimistic stakeholders. To be responsive as well as to achieve its mandate, USAID will need to continue its support in partnerships with other stakeholders who are focused on immediate compensation. To this end, USAID/Indonesia is actively involved in supporting a partnership with the World Bank that is planned to include focal culling with immediate compensation.

Avian Influenza Unit Developed Monitoring Plan to Assess Activities

The AI Unit has been successful in developing a monitoring and evaluation plan that is being used by USAID regional and field missions to assess the effectiveness of various bird flu activities. The AI Unit and the Regional Development Mission Asia (RDMA) in Southeast Asia are continuing to refine a regional monitoring and evaluation (M&E) plan that uses performance indicators for assessing USAID's progress in conducting its bird flu activities, in accordance with USAID Performance Management Plan guidance. Particularly, the AI Unit plans to gather data for assessment every three months. The monitoring and evaluation plan goes beyond gathering and reporting on data sets that exist in the *Implementation Plan for the National Strategy for Pandemic Influenza* and is designed to help the Agency track its investments and measure progress towards establishing successful bird flu prevention and control measures. AI Unit officials believe that data collection on the performance indicators will help USAID managers assess the progress of its activities in achieving U.S. Government and USAID goals on a continuing basis.

In November 2006, the AI Unit revised its draft monitoring and evaluation plan and provided it to USAID regional and field missions, about five months after the National Implementation Plan was published. Most noteworthy at the RDMA, local staff reviewed the draft monitoring and evaluation plan with local stakeholders for applicability and feasibility, as well as data availability. The RDMA efforts have helped to identify appropriate sources of information for some of the bird flu activity data to be collected as well as identify data limitations. With the assistance of its partners in a collaborative effort, the RDMA staff formed a bird flu monitoring and evaluation technical working group. This RDMA group developed a strategic framework of bird flu activities as well as a list of potential indicators to monitor country-level bird flu activities. Using the bird flu data indicators, the RDMA group is reviewing the data for appropriateness to ensure that required or requested information can be collected for analyses, and will satisfy reporting requirements. What the RDMA staff found, in two data collection cycles, is that some of its partners did not receive regular information by which to provide sufficiently accurate data, either because host countries did not have this data or because the data was deemed too sensitive to share. Moreover, some of the implementing partners will not

have access to baseline data since some countries do not collect baseline data necessary for quantitative analyses.

Specifically, since the USAID bird flu program is in its infancy, the RDMA bird flu monitoring and evaluation working group has reviewed specific indicators to determine whether some of its countries collect specific information routinely, whether the information will be readily available and accessible, and whether the appropriate information sources are sought. By coordinating with a technical working group, the RDMA staff and its partners have developed both indicator definitions and data collection procedures that will permit the team to collect data that it can use to measure program progress as well as to compare actual results against what is planned over specific timeframes. AI Unit officials plan to standardize the RDMA definitions and data collection procedures for use at other USAID field missions, and use the information obtained to track the progress of its bird flu activities worldwide.

Avian Influenza Unit Should Develop Intra-Agency Agreement

Summary: USAID policy stipulates that management control activities should include, among other things, reviews by management at the functional or activity level to ensure that management directives are carried out in ways that make them effective and efficient. Although the AI Unit used an agreement with another federal agency that was implemented by a separate USAID office to procure and ship commodities, USAID officials did not exercise sufficient oversight over its program activities. This occurred, in large part, because the AI Unit used an agreement with a U.S. Government agency in which another USAID office has direct day-to-day management responsibilities. Consequently, AI Unit officials were not sufficiently apprised of activities that required their consultation before action was taken.

ADS 596.3.1c, "Establishing Management Controls," stipulates that management control activities should include, among other things, reviews by management at the functional or activity level to ensure that management directives are carried out in order to be effective and efficient.

In 2006, the AI Unit used a pre-existing participating agency program agreement (PAPA) implemented by USAID's Office of Foreign Disaster Assistance (OFDA) for certain bird flu activities. As opposed to a contract, which allows USAID to direct the manner in which the contractor accomplishes the scope of work within the existing terms and conditions of the instrument, a PAPA allows for another U.S. Governmental agency to implement a defined program with relatively little day-to-day direction or supervision from USAID. OFDA, working on behalf of the AI Unit, authorized three modifications to the PAPA that would allow the Department of Health and Human Services' Federal Occupational Health (FOH) component to, among other things, procure and ship bird flu commodities. According to AI Unit officials, there was an emphasis on using pre-existing platforms in order to be fast and flexible in responding to the threat of bird flu. This emphasis, combined with the appropriation of funds into the International Disaster and

Famine Assistance account that OFDA manages, led to the partnership between the AI Unit, OFDA, and FOH.

Prior to 2006, OFDA assigned a Cognizant Technical Officer (CTO) to oversee the activities conducted under the PAPA. The CTO helps to manage the formal relationship between USAID and an award recipient to ensure that the terms and conditions of an acquisition and assistance instrument are accomplished both administratively and financially. With a formal designation, the CTO can perform certain contract administrative functions such as reviewing and approving invoices, as well as issuing written interpretation of contract technical requirements. At the time when USAID began expanding its capacity to conduct its bird flu activities, USAID officials exercised minimal oversight over the modifications to the original PAPA that included requirements for FOH to procure and ship bird flu commodities. AI Unit managers relied on the OFDA staff who served as CTO to both communicate its requirements directly to FOH and to keep the AI Unit informed of any actions undertaken. However, since the structure of the PAPA means there is little day-to-day supervision from USAID, the CTO relied on the technical expertise of FOH, as the participating agency responsible for ultimate management decisions within the scope of the modifications to the PAPA. As a result, AI Unit managers stated that often they were not apprised of some activities that may have required consultation and agreement before action was taken.

For example, FOH, with OFDA concurrence, made a management decision that illustrates the AI Unit officials' concerns. In a task order under Modification 2 of the PAPA, FOH was required to procure commodities to be used in the bird flu decontamination kits. A decontamination kit included, among other things, a backpack sprayer. According to one AI Unit official, the original specifications for the decontamination kit were based on consultations with various technical organizations and ultimately included a 2.25-gallon backpack sprayer. While the specification for a 2.25-gallon backpack sprayer was transmitted to OFDA, in writing, in April 2006, the task order included in the PAPA indicated that either two one-gallon sprayers or one two-gallon sprayer could be used in the decontamination kit. FOH officials stated that, at the time of purchase, a supplier could not provide sufficient quantities of the 15,470 2.25-gallon sprayers needed to fill the USAID order. Therefore, FOH made a management decision and ordered a sufficient quantity of 15,470 one-gallon sprayers and 7,735 2.25-gallon sprayers to complete the USAID inventory. Moreover, according to FOH, OFDA officials agreed to this change and did not consult with the AI Unit officials before ordering the split shipment of one- and two-gallon sprayers.

AI Unit staff objected to the smaller sprayers for technical reasons and requested that further changes in commodity technical specifications not be made without approval from the AI Unit. While OFDA and AI Unit officials disagreed about the utility of the 15,470 one-gallon sprayers, valued at approximately \$266,000, for bird flu decontamination purposes, the AI Unit is attempting to find an appropriate role for the one-gallon sprayers in order to avoid a financial loss to the U.S. Government. Consequently, the AI Unit plans to order additional 2.25-gallon sprayers to complete its required inventory.

Entering into a pre-existing agreement can pose problems when the control of activities rests within a separate office with different activities as well as priorities. Because USAID managers use a PAPA in which little day-to-day management is customary, misunderstandings can and will occur during operations and in conducting program

activities. These misunderstandings can be compounded when communication is unclear and expectations are not documented. When the design of an agreement involves multiple office interaction and cooperation, a formal intra-agency agreement helps to document expectations, deliverables, target dates for specific activity completion, etc. To alleviate any ambiguities about expectations, opportunities for goal achievement can be maximized if expectations are documented, agreed upon and understood by all offices responsible for conducting program activities.

Recommendation No. 1: We recommend that USAID's Bureau for Global Health's Avian and Pandemic Influenza Management and Response Unit develop a written intra-agency agreement with other USAID offices responsible for executing bird flu programmatic activities.

Avian Influenza Unit Should Request Deobligation Reviews Periodically

Summary: USAID policy stipulates that unexpended obligated balances must be monitored to ensure that the level of funding is consistent with Agency funding guidelines and that balances are deobligated when no longer needed for the purposes for which they were originally obligated. In December 2006, staff with bird flu oversight responsibilities determined that approximately \$19 million in financial obligations for planned bird flu expenses could be deobligated and put to better use. However, AI Unit managers did not request that OFDA deobligate the funds in a timely manner because the managers were not aware that unexpended obligated balances existed that could have been used for other planned, but unfunded, bird flu activities. As a result, decision makers did not have an accurate indication of realistic funding requirements for the continuance of USAID's bird flu program.

According to the USAID General Notice establishing the AI Unit in October 2005, the Unit was formed to provide "day-to-day management and oversight of the Agency's AI activities." As such, an integral part of this Agency-wide oversight includes oversight of USAID's avian influenza-related obligations. ADS 621.3.12, "Review of Unexpended Obligated Balances or a Section 1311 Review", stipulates that unexpended obligated balances must be monitored to ensure that the level of funding is consistent with Agency funding guidelines and that balances are deobligated when no longer needed for the purposes for which they were originally obligated. To that end, managers are required to continuously review the status of obligated funds and request deobligations when a determination is made that the funds are no longer needed to accomplish activity objectives, especially when the amount to be recovered exceeds \$100,000.

As of December 2006, OFDA, with the assistance of Federal Occupational Health (FOH), a component of the U.S. Public Health Service within the U.S. Department of Health and Human Services, determined that approximately \$19 million in financial obligations for planned bird flu expenses could be deobligated and put to better use for unfunded bird flu activities that were needed. Specifically, the FOH staff assisted the OFDA Cognizant Technical Officer (CTO) responsible for monitoring expenditures, with calculating a potential deobligation of \$19 million that could be reprogrammed to cover

other anticipated, but unfunded, bird flu expenses that were in accordance with the International Disaster and Famine Assistance (IDFA) account earmark. Such anticipated costs included relocation of commodities from a commercial warehouse to selected deployment locations overseas, as well as the costs of hiring a commercial contractor to manage and distribute the existing bird flu commodity stockpile. In fact, the CTO did not inform AI Unit managers that some funds were no longer needed to accomplish planned activity objectives in a timely manner because OFDA and FOH officials were unsure what commodities might be needed in the future. FOH has not acquired, or acquired for less than the obligated amount, various supplies for which about \$10.9 million was obligated. Moreover, prior to mid-October 2006, AI Unit officials did not request that OFDA review obligations for funds that could be used for other bird flu activities. Specifically, FOH acquired personal protective equipment (PPE) kits and other commodities valued at about \$2.3 million less than the funds that had been obligated and an additional \$8.6 million that had been obligated for other supplies in June 2006 respirators that had not been purchased six months later. Moreover, these obligations had not been expended as of March 16, 2007. The remaining \$8.1 million of the potential deobligation is attributable to ongoing activities such as logistical support and components for the decontamination kits.

Although the CTO stated that he reviewed FOH billing records prior to approving the bills, the FOH billing records showed the charge for the PPE kits, for example, as occurring in August 2006. Therefore, according to the CTO's statement, around this time it should have been known that the PPE kits had been acquired for less than the obligated amount; however, AI Unit managers were not informed. Moreover, this was prior to the Agency's fiscal year-end and the preparation of its annual financial statements when deobligation reviews would normally be conducted. However, according to the CTO and other OFDA officials, a major concern and source of uncertainty was to ensure that sufficient funds remained obligated in the agreement with FOH to transport commodities in the event of a massive pandemic outbreak. This uncertainty was compounded by the Department of Health and Human Services' delay in billing USAID for receipts after it began implementing a new financial management system. The implementation of this new financial system caused three months delay in bills dated from November 2006 to January 2007, which were eventually submitted for payment in February 2007. Notwithstanding these concerns and uncertainties, however, deobligation of the items that were either not acquired, or acquired for less than their obligated amounts, which equaled about \$10.9 million, could have been initiated by OFDA, or requested by AI Unit managers, in a more timely manner while still retaining sufficient funds in the agreement for emergencies.

Even though OFDA has direct responsibility for obligating and deobligating funds that were appropriated through the IDFA account, the AI Unit, as the entity specifically formed to provide oversight of USAID's bird flu activities, has its own fiduciary responsibility to ensure that those obligations were managed in accordance with applicable USAID regulations. Since the 1311 Review helps to identify funds that can be reprogrammed for current requirements as well as supports USAID's formal year-end certification to the Department of Treasury, U.S. lawmakers, as well as to USAID management, stakeholders did not have an accurate indication of realistic funding requirements for the continuance of USAID's bird flu program. Inasmuch as USAID managers should develop and implement cost-effective controls over funds under its purview, at a minimum, stakeholders should reasonably expect that the most current factual information will be made available to ensure that funds are put to the best uses.

Recommendation No. 2: We recommend that USAID's Bureau for Global Health's Avian and Pandemic Influenza Management and Response Unit determine the amount of unneeded, unliquidated obligations for bird flu commodities, which were estimated to be \$19,061,988 as of December 1, 2006, and request deobligation of what has not already been deobligated to date.

Recommendation No. 3: We recommend that USAID's Bureau for Global Health's Avian and Pandemic Influenza Management and Response Unit establish a schedule to monitor its unexpended obligation balances for opportunities to deobligate funds when no longer needed, in a timely manner.

During the audit, in December 2006, OFDA and AI Unit officials agreed to deobligate \$10 million. These officials plan to hold the balance of the unexpended funds valued at approximately \$9 million to cover any remaining FOH activities. On March 21, 2007, the AI Unit awarded a new task order to a contractor to manage the commodity stockpile. The contractor is expected to provide services that will include domestic transportation and warehousing services, international freight forwarding, the development of processes and standards for ordering, receiving, transferring, and releasing commodities to recipient countries.

Avian Influenza Unit Should Apply Accounting Principles Consistently

Summary: USAID policy requires USAID managers to implement management controls to ensure that expenditures are properly recorded and accounted for. Although regional and field mission staff used a stand-alone database system to record vouchered and accrued bird flu activity expenditures, certain financial information contained in the database system did not agree with each mission's core financial management system at the Regional Development Mission Asia and at USAID/Indonesia. This occurred because the AI Unit did not require missions' staff to reconcile expenditures in the stand-alone database financial information to those in USAID's core financial management system's accounting records. As a result, internal and external stakeholders may base financial decisions on incomplete, inaccurate, or unofficial information.

ADS 596.3.1.c, "Establishing Management Controls," requires USAID managers to implement management controls to ensure that expenditures are properly recorded and accounted for.

The AI Unit uses a specialized, stand-alone database system called Avian Influenza Monitoring and Evaluation Budget Analysis (AIMEBA) to perform a number of functions, including financial reporting on USAID's bird flu activities. AIMEBA was developed so that the AI Unit could have access to timely information from field missions on the status of bird flu program implementation in order to fulfill its mandated oversight role and to respond to reporting requirements imposed by external stakeholders. In addition, AIMEBA provides greater specificity regarding bird flu obligations and expenditures than does the Agency's core financial management system. According to AI Unit guidance, expenditures recorded in AIMEBA should include both vouchered and accrued

expenditures. Similarly ADS 631, *Accrued Expenditures*, requires that USAID keep its official accounting records on an accrual basis. An accrual basis of accounting is one in which expenditures and other transactions, are recognized when they are incurred, regardless of when cash is received or paid. Consequently, since both AIMEBA and the Agency's core financial management system use the same basis of accounting, at the end of any given accounting period the recorded expenditures in the two systems should be equivalent. However, at two mission locations, the Regional Development Mission Asia (RDMA) and USAID/Indonesia, the recorded expenditures in AIMEBA for selected agreements did not agree with those recorded in the missions' accounting records, as of September 30, 2006.

For example, the expenditures that the RDMA reported for one agreement totaled \$225,643. However, the RDMA's Office of Financial Management's (OFM) accounting records showed zero expenditures in the core financial management system. The RDMA's AIMEBA records differed from its OFM accounting records because the RDMA's Cognizant Technical Officer had not prepared an accrual spreadsheet for the quarter ending September 30, 2006 and no disbursements for the newly-awarded agreement occurred until December 2006. Similarly, for the bird flu portion of another RDMA-managed agreement, financial information in the AIMEBA reported \$84,406 as of September 30, 2006, while the RDMA's Office of Financial Management's accounting records showed expenditures of \$91,928 for the same period. This discrepancy occurred primarily because the deadline for recording accruals is about one month earlier for the OFM than for the AIMEBA resulting in differing recorded amounts. In addition, different staff was responsible for recording expenditures in AIMEBA and in the mission's Office of Financial Management's records.

At USAID/Indonesia, for example, AIMEBA reported expenditures of \$772,000 as of September 30, 2006 for one agreement, while the official accounting records showed \$777,000. For another agreement, AIMEBA displayed significantly more expenditures than did the mission's accounting system, with \$47,000 in total expenditures versus about \$9,600 recorded in the OFM's core financial management system.

The AI Unit has not established management controls to ensure that reconciliations of expenditures recorded in AIMEBA to the expenditures recorded in the Agency's core financial system accounting records occur on a routine basis. However, the accounting principles used by USAID should be applied uniformly to all accounting systems in order to present the most accurate up-to-date financial information possible. Since the financial information that AI Unit officials report to stakeholders routinely is garnered from AIMEBA, and not from USAID's core financial management system, conflicting information about USAID's bird flu activities is probable. Consequently, stakeholders may base financial decisions on incorrect, incomplete, or unofficial information. Furthermore, inconsistent application of accounting principles among USAID's Washington headquarters' offices and field missions inhibits the stakeholders' ability to monitor and evaluate the effectiveness and efficiency of USAID's bird flu activities, and take corrective actions, as necessary.

Recommendation No. 4: We recommend that USAID's Bureau for Global Health's Avian and Pandemic Influenza Management and Response Unit develop and implement procedures to ensure that the obligations and expenditures reported in the Avian Influenza Monitoring and Evaluation Budget Analysis database are consistent with the corresponding obligations and expenditures in the Agency's core financial management system at the end of any given accounting period.

Recommendation No. 5: We recommend that USAID's Bureau for Global Health's Avian and Pandemic Influenza Management and Response Unit develop and implement procedures to ensure that accruals for the Avian Influenza Monitoring and Evaluation Budget Analysis database are submitted on the same schedule as those submitted to the Agency's core financial management system at the end of each accounting period.

Avian Influenza Unit Should Improve Commodity Stockpile Management

Summary: Modification 3 to a participating agency program agreement indicated that a contractor was to procure, temporarily store, and ship bird flu commodities within specific timeframes. Although AI Unit officials drafted a deployment strategy for relocating the commodities to overseas locations, about three-quarters of the purchased commodities, including about 1.3 million sets of personal protective equipment, remained in the United States as of March 2007. This occurred because the AI Unit did not believe that regional warehousing of bird flu commodities was a cost-effective approach given their assessment of the contractor's logistics support capabilities. As a result, required commodities have not been available, assembled, and ready for immediate deployment.

Under a previously established interagency agreement with FOH, USAID's Office of Foreign Disaster Assistance (OFDA) made modifications to the existing agreement to include specific duties for procuring, assembling, and shipping commodities for USAID's avian influenza activities on behalf of the AI Unit. Appendix VI outlines the specific purposes established by each of the modifications to the participating agency program agreement (PAPA). Modification 3 is one of three modifications to the PAPA that required the Department of Health and Human Services' Federal Occupational Health (FOH) component, as the contractor, to, among other things, procure, temporarily store, as well as to ship bird flu commodities to various locations within specified timeframes.

Of the total amount budgeted, OFDA, on behalf of the AI Unit, has incurred its single largest commitment for the procurement of commodities and logistical support activities valued at approximately \$56.3 million. These commodities include personal protective equipment (PPEs) such as special masks, coveralls, latex gloves, shoe covers, decontamination supplies that include such items as sprayers, disinfectant, pails, scrub brushes, and laboratory specimen kits that include material for the collection and shipment of specimens for laboratory analysis.

Although OFDA, on behalf of the AI Unit, obligated funds to purchase 1.5 million PPEs, 15,470 decontamination kits, and 100 laboratory specimen kits in March 2006, FOH has only deployed and relocated about 250,000 of the PPEs. Much of the stockpile was distributed to locations within Southeast Asia, as indicated on the map in Appendix VII. This distribution was in accordance with such criteria as the country's need for assistance, the presence of the virus in the country, and the ability of other donors to assist. In addition, FOH deployed 2,500 decontamination kits to various overseas locations through mid-December 2006, with another 1,000 kits shipped to Indonesia in February 2007. The remaining commodity stockpile of approximately 1.4 million PPEs remained in a warehouse in Atlanta, Georgia, awaiting deployment, as of February 2007.

Although AI Unit officials drafted a deployment strategy for relocating the commodities to overseas locations, concerns over the capabilities of stockpile contractor impeded this effort. In mid-to-late October 2006, AI Unit officials, in consultation with OFDA, began planning to hire a commercial contractor to manage the commodity stockpile more effectively. Relying on information in Modification 3 regarding the establishment of a consolidation and distribution center, and from verbal conversations with the Cognizant Technical Officer, FOH, as the contractor, relocated 1.3 million PPEs to a commercial warehouse in Atlanta in preparation for transferring title and responsibility for the commodity stockpile to USAID on December 1, 2006. Even though FOH submitted a weekly project report, dated November 3, 2006, to the Cognizant Technical Officer indicating FOH's understanding that the December 1, 2006 date entailed a transfer of the PPE kits to USAID, AI Unit officials stated that this information was not communicated to them. Ultimately, on November 28, 2006, three days prior to the planned transfer of the commodity stockpile, the AI Unit informed FOH that the Unit would not be able to accept the stockpile by December 1, 2006 and to reschedule any further deployment actions. Taking an emergency acquisition action to procure temporary storage for the commodity stockpile, FOH procured storage for the 1.3 million PPEs at the same commercial warehouse where the commodities were previously staged. At that time, AI Unit officials continued preliminary efforts to obtain another contractor to assume the responsibility for procuring, warehousing, and deploying the bird flu commodity stockpile.



FOH photograph of AI commodities staged during pre-packing operation in January 2007.

Prior to the relocation of the PPEs to the commercial warehouse, FOH had successfully negotiated “gratis” storage facilities for about 600,000 of the PPEs at a local military installation in Marietta, Georgia resulting in a cost savings to the U.S. Government for both storage and security costs. However, since FOH relocated all of the commodity stockpile to a commercial warehouse, USAID has incurred additional storage costs of approximately \$11,000 a month for those 600,000 PPE kits, until the commodities can be relocated.

OFDA officials, on behalf of the AI Unit, modified the PAPA to authorize the movement of commodities to a consolidation and distribution center in preparation for shipment, and the AI Unit drafted preliminary guidance that envisioned nearly 60 percent of the available PPE kits deployed by December 1, 2006. However, no deployments occurred to regional stockpile warehouses because AI Unit managers did not believe that regional warehousing of bird flu commodities was a cost-effective approach given their assessment of FOH's logistics support capabilities. As a result, the AI Unit has targeted delivery of PPEs and other commodities to 20 high risk countries.

In order to be both timely and responsive to combat outbreaks of bird flu at specific locations around the world within specified timeframes, USAID must have the required commodities available, assembled, and ready for immediate deployment in order to respond to sporadic bird flu outbreaks that can occur globally. Suitable staging areas for the bird flu commodities overseas will help to ensure that the commodities are transported within shorter timeframes and available for use expeditiously. The recent award of a new task order to a contractor to manage the commodity stockpile provides a useful opportunity to re-examine the issue of regional stockpile warehouses and determine whether such a deployment strategy is effective and feasible. Consequently, we are making the following recommendation:

Recommendation No. 6: We recommend that USAID's Bureau for Global Health's Avian and Pandemic Influenza Management and Response Unit determine the optimal staging areas for its bird flu commodities in order to meet specified timeframes.

Avian Influenza Unit Should Review Commodity Requirements

Summary: USAID policy requires USAID managers to implement controls to ensure that assets are safeguarded against waste. On behalf of the AI Unit, a contractor purchased decontamination kit components that included, among other things, a disinfectant used to clean areas that may be contaminated with the bird flu virus. In Indonesia, we found that some of the disinfectant provided in the decontamination kits did not have adequate shelf life for storage beyond six months. This occurred because the contractor did not inform the AI Unit or OFDA of the disinfectant expiration dates, and USAID/Indonesia's implementers had not inspected the shipment to determine expiration dates. As a result, the AI Unit, USAID/Indonesia, and implementing partners were unaware of how much disinfectant needed to be used expeditiously to avoid spoilage or waste.

ADS 596.3.1.b, "Establishing Management Controls," requires USAID managers to implement appropriate, cost-effective controls to reasonably ensure that assets are safeguarded against waste. An integral part of these controls is ensuring that only commodities with adequate remaining shelf life are purchased and that the expiration dates of commodities are tracked and managed so that commodities will be used or replaced prior to the end of their stated shelf life.

In March 2006, the Department of Health and Human Services' Federal Occupational Health (FOH) component and USAID's Office of Foreign Disaster Assistance (OFDA) signed Modification 2 of a participating agency program agreement to purchase commodities to be used in decontamination kits that included, among other things, a disinfectant used to clean areas that may be contaminated with the bird flu virus.

On behalf of the AI Unit, FOH ordered 15,470 decontamination kits that contained, among other things, one 5 kg drum of Virkon S ("Virkon"). Virkon is a disinfectant used to clean poultry cages and other areas that may be contaminated with the bird flu virus. To fill the order specified by AI Unit officials, FOH ordered 15,470 Virkon drums valued at approximately \$3.1 million or about \$201 per each 5 kg drum.⁵

Given this price, cost considerations for the purchase of Virkon are further amplified because of product shelf life and storage restrictions associated with the product. According to the manufacturer's information on the container, the product has a production date and an expiration date. To compound matters, the manufacturer recommends that the product should be stored in a cool dry place since its technical

⁵ One kilogram equals about 2.2 pounds of the disinfectant and makes approximately 132 gallons of a one-per cent solution, per manufacturer's label instructions.

specifications state that Virkon loses two percent of its potency over its shelf life when stored at 68 degrees Fahrenheit. We found no evidence that indicated how much additional potency would be lost if Virkon is stored at temperatures exceeding 68 degrees Fahrenheit, as would be the case in Indonesia. Moreover, USAID officials were not aware that any of the Virkon stock was close to expiration.

During a random spot check of an implementer's warehoused inventory in Indonesia, some of the Virkon (Lot Number 19749) was not only close to expiration, but also stored in a facility that lacked climatic controls. Moreover, USAID records indicated that 15,478 product containers were received in Marietta, Georgia in a series of shipments in June and October 2006 (before it was sent to USAID/Indonesia and other locations worldwide). A FOH representative stated that the Virkon close to expiration was deployed to the field where it would be most likely to be used immediately. However, FOH did not inform either OFDA or the AI Unit about the Virkon supply that was received from the manufacturer with less than one year of shelf life remaining. The manufacturer's product production date was listed as August 2004 and the expiration date listed was August 2007. At the time of the audit, USAID/Indonesia implementers had not inspected the shipment of decontamination kits to determine the amount of product that would be needed to be used expeditiously to avoid spoilage or waste. Additionally in February 2007, as a result of the audit, FOH inventoried the commodities to identify the quantities of date-sensitive inventory that should be available for immediate transfer.



OIG photograph of UN Food and Agriculture Organization representatives and an OIG auditor during examination of contents in an Indonesian warehouse inventory of bird flu commodities in February 2007.

While an AI Unit official stated that Virkon is “the gold standard” for disinfectants, it does have limitations that include high cost, and storage and shelf life restrictions. The benefits and limitations of Virkon should be periodically evaluated to support management commodity selection and purchase decisions. A periodic review of the requirements for specific commodities will keep decision makers apprised of critical restrictions as well as provide the necessary support to justify the purchase of a less expensive but equally effective commodity, if available.

Recommendation No. 7: We recommend that USAID’s Bureau for Global Health’s Avian and Pandemic Influenza Management and Response Unit develop procedures to periodically review and document its requirements for the procurement of commodities.

Recommendation No. 8: We recommend that USAID’s Bureau for Global Health’s Avian and Pandemic Influenza Management and Response Unit review its commodity stockpile inventory to ensure adequate product shelf life exists and document a plan for replacement or final disposition accordingly.

Avian Influenza Unit Should Improve Emergency Shipment Timeliness

Summary: The *Implementation Plan for the National Strategy for Pandemic Influenza* requires USAID to coordinate and set up emergency stockpiles of protective equipment and essential commodities, other than vaccine and antiviral medications, for responding to animal and human outbreaks that would be available for deployment within 24 hours. Although AI Unit officials had a sufficient commodity stockpile to meet the anticipated demand in calendar year 2006, one emergency commodity shipment was not deployed in a timely manner. This occurred because USAID officials did not ensure that the contractor had adequate commodities readily available for immediate shipment. As a result, stakeholders waited longer than necessary for requested commodities.

As of May 2006, Section 4.1.5.2 of the *Implementation Plan for the National Strategy for Pandemic Influenza*, entitled “Producing and Stockpiling Vaccines, Antiviral Medication, and Medical Material,” requires USAID to coordinate and set up emergency stockpiles of protective equipment and essential commodities (other than vaccine and antiviral medications). The emergency stockpiles are to be used to respond to animal and human outbreaks, and ready for deployment within 24 hours of a request for assistance. The AI Unit’s difficulty in deploying the commodities and relocating them to regional stockpile warehouses overseas has hindered its timely responsiveness to supply avian influenza commodities to affected regions. In one instance, the AI Unit encountered difficulty in deploying commodities in response to a bird flu outbreak in Africa. Specifically, USAID, through its contractor, Federal Occupational Health (FOH), shipped an emergency request for commodities approximately one month after the date of the request for assistance. Not only was this shipment untimely, but also additional shipping costs of about \$23,000 and a two-day shipping delay were incurred due to errors regarding the weights and dimensions provided by the contractor to the air shipper.

Consequently, the Government of Southern Sudan (GOSS) waited longer than necessary for USAID's commodities and supplies that were requested to combat a bird flu outbreak.

In August 2006, the GOSS confirmed a bird flu outbreak in poultry in the city of Juba. One month later, GOSS's Ministry of Agriculture reported the occurrences to the country's Ministry of Health. On September 19, 2006, the U.S. Embassy in Khartoum sent a cable to USAID authorities in Washington notifying the AI Unit about the bird flu outbreak in Juba. The cable noted that USAID has donated 500 personal protective equipment items to the United Nations Food and Agriculture Organization (FAO) in southern Sudan, and also that USAID was coordinating with other U.S. Government agencies to formulate an appropriate response. Later, on October 6, the AI Unit received a request from the U.S. Department of Agriculture to ship 1,000 decontamination kits to Sudan that included items such as personal protective equipment, sprayers, disinfectant, pails, and scrub brushes. The AI Unit Deputy Director approved this request the same day.

According to documentation from an OFDA representative, OFDA notified FOH about the needed shipment on October 6. On October 12, FOH informed OFDA that the supplies would be shrink-wrapped, loaded onto pallets, and ready for shipment approximately one week later. On October 19, FOH provided OFDA with the shipping weights and dimensions and OFDA contacted the United Nation's Food and Agriculture Organization in Nairobi to obtain appropriate names of consignees that were received on October 26. On October 27, OFDA requested bids for freight forwarding and awarded a contract on October 31, 2006 that allowed FOH to ship the requested commodities on November 2-3, 2006 to Nairobi.

Although FOH procured sufficient commodities to assemble the requested decontamination kits, USAID officials did not ensure that the contractor had the required number of kits assembled and readily available for immediate deployment with 24 hours, as required. According to one AI Unit official, FOH did not have the infrastructure to operate a global distribution network. For example, a complicating delay in the shipment of the decontamination kits to Sudan was due to FOH's dealings with the U.S. Department of Transportation regarding dangerous-goods labeling for the air shipment of the alcohol wipes in the kits. Furthermore, under the PAPA, the FOH technical adviser was responsible for overseeing a wide variety of both regular and ad-hoc activities pertaining to OFDA's role in responding to chemical, biological, radiological, and nuclear emergencies. However, once the modifications to the PAPA were implemented, this official assumed additional duties for procuring, assembling, and shipping the commodities. Moreover, FOH, using a subcontractor, had assembled the kits on an as-needed basis, when it had sufficient components to pack the kits.

Although the FOH efforts to assemble, pack, and ship the bird flu commodities have been commendable, the AI Unit did not have sufficient emergency stockpiles of protective equipment and essential commodities available to respond to bird flu outbreaks within established timeframes because the manufacturers of some of the commodities did not have sufficient supply of PPE kit components. FOH took the initiative to obtain volunteer labor to assemble PPE kits in the late Winter and Spring of calendar year 2006 until the manufacturers could provide the necessary kits.

Since USAID has a major responsibility and plays a major U.S. Governmental role to assist its global neighbors to increase its stockpiles of commodities to combat, contain

and eradicate bird flu outbreaks, timely emergency response is imperative. PPEs and other commodities needed to bolster the efforts of countries affected by the bird flu virus or at high risk of being infected, to prepare, monitor, and combat the spread of the disease may not be available in a timely manner during an outbreak. Without timely deployment of the commodities needed, neither USAID nor those countries that it seeks to assist, will have the commodities necessary to adequately fight the disease as well as help to eradicate it.

Recommendation No. 9: We recommend that USAID's Bureau for Global Health's Avian and Pandemic Influenza Management and Response Unit develop a strategy for the deployment of emergency bird flu commodities within established timeframes.

Avian Influenza Unit Should Improve Controls Over Commodity Transfers of Ownership

Summary: USAID policy requires its managers, in part, to employ control activities to appropriately document transactions and safeguard assets. Although USAID/Indonesia provided support to implementers to achieve program goals for its bird flu control and eradication program, the AI Unit has not established any memorandum for agreement that can be used to transfer ownership of bird flu commodities. Some mission staff did not formally document the transfer of ownership because staff relied on AI Unit officials to document the transfer of ownership for shipments originating in the United States. As a result, AI Unit officials transferred commodities valued at \$ 2.6 million outside of USAID for use by program implementers without proper documentation of the transfer of ownership.

In June 2006, the Office of Foreign Disaster Assistance entered into an agreement with the United Nations' Food and Agriculture Organization (FAO) to provide support and some commodities for USAID's global bird flu control and eradication program. As a part of this agreement, FAO was to provide a number of USAID missions with assistance in planning, surveillance, and response activities. At USAID/Indonesia for example, FAO was tasked to provide participatory disease surveillance and response through a program it established called an Early Warning and Rapid Response Program.

To achieve some of the goals of USAID's global bird flu control and eradication program, the FAO entered into an agreement with the Government of Indonesia's Ministry of Agriculture to create Indonesia's Bird Flu Participatory Disease Surveillance and Response Program. With USAID funding, FAO established a pilot system of participatory disease surveillance and response (PDS/R) in 12 districts on the island of Java. The PDS/R program was designed to help increase the frequency of disease detections, as well as to respond to suspected outbreaks. Because of the program's initial success, stakeholders decided that the PDS/R program should be expanded to cover all of Java and extend to other islands within Indonesia. The project also was to provide training for PDS/R teams. USAID provided additional funding to extend the

project until March 31, 2007 to build collaborations with partner institutions to achieve the maximum extension of activities possible within a one-year period.

As a part of its training program, the AI Unit agreed to provide approximately 200,000 sets of PPEs and 2,000 decontamination kits valued at \$2.6 million to the FAO for bird flu outbreak response activities. According to an FAO representative, the PDS/R teams would use the PPEs for the project activities over a one-year period in its surveillance and response activities in Indonesia. In this regard, the AI Unit provided shipments of more than 4,200 PPEs to satisfy FAO's temporary needs before December 2006⁶ and has recently transferred one of two shipments of approximately 100,000 PPEs and 1,000 decontamination kits to the organization for its use. According to one USAID/Indonesia staffer, the Mission plans to provide a second shipment of PPEs, if needed.

USAID's Automated Directives System 596, *Management Accountability and Control*, requires its managers to employ management controls to appropriately document transactions and safeguard assets. Although USAID has transferred ownership of bird flu commodities valued at \$2.6 million to FAO as a part of its program implementation, USAID did not formally document the transfer of ownership of the commodities, as a prudent management control for ensuring accountability of government resources. USAID/Indonesia staff did not formally document the transfer of ownership because staff relied on AI Unit officials to document the transfer of ownership inasmuch as the shipment originated in the United States. Conversely, AI Unit officials believed that a signed acknowledgement of a USAID receiving report by an FAO representative constituted sufficient documentation of the transfer of ownership. This documentation, however, did not establish the rights and obligations of the parties. In Indonesia, for example, a PDS/R team used only part of the components of a PPE kit during one site visit observed. While the use of a partial PPE kit may have been entirely appropriate under the circumstances, there is no assurance that the remaining salvageable components will be returned to USAID or used in an otherwise suitable manner, absent sufficient documentation setting forth the parties' rights and obligations.

Since the AI Unit released custody of and provided bird flu commodities to an implementer for use in one of its program activities, the AI Unit, in part, modified the terms of the original written agreement without sufficient documentation. Any modifications, changes, or revisions to a written agreement should be documented formally in writing as a modification or amendment to the original project to acknowledge the agreement and document expectations that the equipment will be used as intended. Since USAID's agreement to provide PPEs and other avian influenza commodities to FAO was not documented, in writing, by either a modification or amendment to the project document used for the FAO program implementation, USAID cannot be assured that the purpose, rights and responsibilities, or expectations will be fully understood, or executed. Without formal documentation of the transfer of USAID-owned property, AI Unit officials cannot adequately document some of its transactions or properly and effectively provide sufficient management controls over its assets.

⁶ Prior to the formation of the AI Unit, OFDA shipped 2,000 PPE kits to Indonesia in mid-2005.

Recommendation No. 10: We recommend that USAID's Bureau for Global Health's Avian and Pandemic Influenza Management and Response Unit develop procedures to adequately document the transfer of ownership of bird flu commodities.

EVALUATION OF MANAGEMENT COMMENTS

In their response to the draft report, AI Unit managers generally concurred with all of the recommendations. Accordingly, a management decision has been reached on all ten recommendations, and final action has been completed on two recommendations. However, the AI Unit made three general comments about the distinction between OFDA and the AI Unit, the value of the commodities transferred to Indonesia without proper transfer documentation, and the lack of a proper balance regarding the AI Unit's emergency shipping timeliness. We will address each of these general comments in conjunction with our evaluation of the AI Unit's response to each of the 10 recommendations.

To address Recommendation No. 1, AI Unit Officials agreed to develop an intra-agency agreement that will clearly define responsibilities and lines of authority. However, AI Unit managers believed that the draft report implied that the AI Unit was responsible for the management of the International Disaster and Famine Account (IDFA) funds. Contrary to this assumption, an entire section of the draft report discussed the management responsibilities of OFDA and AI Unit when the offices used an agreement that allowed one office to have direct day-to-day management responsibilities while another office had management control responsibilities at a functional or activity level. Moreover, we provided the distinction of responsibilities between the two offices in the background section of the draft report and later discussed the difficulties in using an agreement in which another USAID office (OFDA) has the direct day-to-day management responsibilities, working on behalf and in consultation with another office (the AI Unit). As stated in the draft report *"the AI Unit is responsible for management and oversight of USAID's bird flu activities"* and *"OFDA is responsible for managing and implementing IDFA funds, which includes coordination with the AI Unit to develop and deploy a commodity stockpile."* Furthermore, we point out that pre-existing agreements can pose problems when the control of activities rests with separate offices that are responsible for different activities and as well as priorities. In this instance, the AI Unit used an agreement with another federal agency (FOH) that was implemented by a separate USAID office (OFDA) to procure and ship commodities (for the AI Unit).

Since the AI Unit plans to develop an intra-agency agreement that will clearly define responsibilities and lines of authority between it and OFDA, a management decision has been reached on this recommendation.

Regarding Recommendation No. 2, the AI Unit, working with OFDA, has determined the unneeded funds in the FOH agreement and has begun deobligating the funds. Communication with an OFDA official subsequent to the receipt of management comments indicated that a final figure was not yet available. A previous deobligation of \$10 million was finalized in May 2007. While AI Unit managers believe that the AI Unit does not have any responsibility for financial oversight, we state that even though OFDA has the direct responsibility for obligating and deobligating funds that were appropriated through the IDFA account, the AI Unit, as the entity specifically formed to perform oversight of USAID bird flu activities, has a fiduciary responsibility to ensure that those

obligations were managed in accordance with USAID regulations, especially since the AI Unit reports to the U. S. Congress about IDFA monies used for bird flu activities. While we understand that deobligation is performed by OFDA for IDFA monies, AI Unit managers, acting in an oversight capacity, are not precluded from requesting that OFDA deobligate funds that are no longer needed for specific purposes and should be aware of unexpended obligated balances for opportunities to fund other activities. Thus, contrary to management's comments, Recommendation No. 2 recognizes the distinct responsibilities of the two offices and specifically states that the AI Unit "*request deobligation*" of funds rather than deobligate those funds directly. Furthermore, the draft report also acknowledged the restrictions placed on the obligated funds by the IDFA earmark and stated that any reprogramming of such funds must be in accordance with the authorizing legislation. We realize that the legislation broadly allows the AI Unit to develop a stockpile of commodities and deploy them. However, the AI Unit did not ensure that obligations for items that were neither acquired nor acquired for less than the obligated amounts were deobligated in a timely manner in order to present an accurate indication of realistic funding requirements for the continuance of bird flu activities.

As an illustrative example, during an audit briefing AI Unit managers requested auditing data about several commodities that had been acquired for less than their obligated amounts. Since the balance of the obligations for these several commodities could be deobligated immediately, AI Unit managers wanted to review this documentation inasmuch as the managers stated that they had not received the information prior to the audit briefing.

Since the AI Unit, working with OFDA, has begun the deobligation process, a management decision has been reached on this recommendation.

With regard to Recommendation No. 3, the AI Unit agreed that it was essential to continue to review unexpended obligations on a quarterly basis and look for opportunities to deobligate funds when they were no longer needed. However, the AI Unit managers believed that OFDA had the ultimate management authority to, among other things, deobligate any of the bird flu funds. While this is true, AI Unit managers also, in exercising their basic fiduciary duties, should establish a schedule to monitor unexpended bird flu obligations for opportunities to recommend deobligation of funds to OFDA when no longer needed for expressed purposes. Moreover, on a regular basis, AI Unit managers will be able to exercise full oversight authority as the AI Unit makes the transition to the new contractor hired to, among other things, transport and store bird flu commodities. Since AI Unit managers have agreed to review unexpended obligations on a quarterly basis and look for opportunities to deobligate funds when no longer needed, a management decision has been reached on this recommendation.

Regarding Recommendation No. 4, AI Unit managers concurred with the recommendation and plan to develop procedures to ensure consistency exists between the Agency's core financial management system and the Unit's Avian Influenza and Monitoring Evaluation Budget Analysis (AIMEBA) database. Accordingly, a management decision has been reached on the recommendation.

Regarding Recommendation No. 5, the AI Unit managers plan to update and publish AIMEBA guidance to ensure consistency with the Agency's core financial management system. The recommendation that the AI Unit cited in its management comments, however, was a previous version that subsequently was revised in the draft report.

Nonetheless, the managers addressed Recommendation No. 5 in their planned actions for Recommendation No. 4. Accordingly, a management decision has been reached on Recommendation No. 5.

Regarding Recommendation No. 6, the AI Unit has awarded a contract to a company for the procurement, management, and distribution of bird flu commodities and plans to begin assessing the efficiency and effectiveness of pre-positioning bird flu commodities by July 2007. By performing this type of assessment for the pre-positioning of bird flu commodities in Southeast Asia, the AI Unit will take the necessary first actions to determine optimal staging areas where it can provide timely responses to bird flu outbreaks when necessary. Accordingly, a management decision has been reached on this recommendation.

Regarding Recommendation No. 7, the AI Unit plans to continue to review the appropriateness of the commodities, such as the disinfectant named Virkon, and make necessary changes based on sound scientific evidence and the support of qualified experts. Moreover, while AI Unit managers dispute the cost of a 5kg drum of Virkon as valued at \$151 each, FOH financial records indicate the cost of one 5 kg drum of Virkon as valued at \$201. Accordingly, a management decision has been reached, and final action taken, on this recommendation.

Regarding Recommendation No. 8, the AI Unit has reviewed its commodity stockpile to ensure that adequate product shelf life exists. In addition, AI Unit managers have agreed to instruct its contractor to ensure that adequate shelf life exists for dated products and that expired products are handled properly. We believe that these actions will assist the AI Unit in monitoring usage of perishable commodities. Accordingly, a management decision has been reached on this recommendation.

Regarding Recommendation No. 9, in a newly awarded March 2007 contract, AI Unit managers have included an emergency shipping component as a strategy to provide for the deployment of emergency bird flu commodities within established timeframes.

In response to AI Unit managers' concerns that the draft report unduly highlighted the delayed shipment to Sudan that took approximately one month, any emergency shipment that takes an inordinate amount of time should be emphasized. Because the *Implementation Plan for the National Strategy for Pandemic Influenza* requires that USAID set up commodity stockpiles of protective equipment and essential commodities for responding to outbreaks that would be available *within 24 hours*, USAID compliance is mandatory. During the audit, the delayed shipment to Sudan clearly illustrated the problems that hindered the Agency's efforts to comply with the strict 24-hour deadline. Although AI Unit managers comment that 70 other shipments had been "timely," the definition of "timely" is not specified in their comments or otherwise linked to the 24-hour deadline for emergency shipments that is required by the *Implementation Plan for the National Strategy for Pandemic Influenza*.

Based on our review of the newly awarded March 2007 contract, we believe that the AI Unit's inclusion of an emergency shipping component will address this recommendation. Accordingly, final action has been taken on this recommendation.

Regarding Recommendation No. 10, the draft report explicitly stated that the \$2.6 million figure is based on 200,000 PPE sets and 2,000 decontamination kits – USAID's total

commitment. The 200,00 PPE sets are valued at \$1.6 million (or \$8.05 each) and the 2,000 decontamination kits are valued at \$1 million (or \$504.33 each). These commodity costs are based on our review of FOH billing records and are exclusive of transportation and storage costs. Moreover, the draft report stated that one-half of those amounts had been shipped as of the end of audit fieldwork. Of great note are the costs for one 5-kg pail of Virkon disinfectant at \$200.99 and one fit-test kit at \$180.24 that was specified by the task order to be included in each decontamination kit. Furthermore, USAID's commitment to supply bird flu commodities to Indonesia is documented in other official data. For example, in a letter from the USAID/Indonesia Mission Director to a senior Indonesian official in January 2007, the Mission Director refers to a transfer of 100,000 PPE sets as "the first installment of a total 200,000 sets of PPE and 2,000 decontamination kits for this year." Also, in a September 2006 press release, the American Embassy Jakarta called attention to a \$2.2 million contribution to bird flu prevention efforts, which, according to a USAID/Indonesia official, was based on 200,000 PPE sets valued at \$2.0 million (or \$10 each) and 2,000 decontamination kits valued at \$0.2 million (or \$100 each).

In its response to our draft report, the AI Unit asserts that full transfer documentation was implemented after an initial shipment of PPE sets valued at \$36,750. However, as stated in the draft report, an FAO representative's signed acknowledgement of a USAID receiving report does not constitute sufficient documentation since such a report does not designate the rights and obligations of the parties. The AI Unit managers did not require staff to sufficiently document the formal transfer of USAID ownership for commodity shipments originating in the United States. Proper transfer documentation is a prudent management control for ensuring accountability of government-owned resources that establishes the rights and responsibilities of USAID, as well as documents the agreement with its implementing partners. Most importantly, this type of transfer of ownership documentation ensures that arrangements are made for salvaging unused commodities that have the potential for future use at the end of any contractual period by USAID or any subsequent implementing partner.

Since the AI Unit has commenced developing adequate documentation of the transfer of ownership of bird flu commodities, a management decision has been reached on this recommendation.

SCOPE AND METHODOLOGY

Scope

The Office of Inspector General's Performance Audits Division conducted this audit in accordance with generally accepted government auditing standards. The purpose of the audit was to determine what progress USAID is making in conducting selected mandatory activities to address the threat of avian influenza. We conducted this audit at USAID's Bureau for Global Health, Avian and Pandemic Influenza Management and Response Unit in Washington, D.C.; Dobbins Air Reserve Base in Marietta, Georgia; Regional Development Mission Asia (RDMA) in Bangkok, Thailand; and at USAID/Indonesia in Jakarta, Indonesia from November 27, 2006 to March 16, 2007.

In planning and performing the audit, we obtained an understanding of USAID's roles and responsibilities for addressing the threat of bird flu. Furthermore, we obtained an understanding of the management controls related to the accurate and timely recording of financial information, supervision and reviews by management at the functional level, and documentation of transactions and internal controls. Our audit covered AI Unit activities conducted from October 2005 to March 16, 2007.

The AI Unit's worldwide responsibilities include mandatory activities that include (1) commodities, (2) surveillance (both animal and human), (3) response (both animal and human), (4) communications, and (5) preparedness. We judgmentally selected the management of the commodity stockpile for a thorough review since USAID's commitment of about \$56 million for commodities was its single largest activity – comprising 29 percent of all USAID's total budgeted funds valued at \$191 million, as of December 2006. In addition, aspects of the operation could be tested at various locations worldwide from product receipt to deployment to USAID field missions and to implementers. We also reviewed surveillance and response activities in Indonesia, since Indonesia has experienced the largest number of human fatalities attributable to bird flu. Finally, we reviewed certain management control activities at the Regional Development Asia, which is responsible for significant U.S. and international efforts to contain bird flu in Viet Nam, Laos, southern China, and Burma.

Methodology

To answer the audit objective, we reviewed applicable guidance on USAID's bird flu activities. This guidance included the U.S. Homeland Security Council's *Implementation Plan for the National Strategy for Pandemic Influenza*; the AI Unit's *Avian and Pandemic Influenza Strategic Guidelines for Missions and Regional Bureaus*; and AI Unit's draft field guidance for commodity stockpile management. We also reviewed reports and other documents prepared by various USAID implementing partners, such as the United Nation's Food and Agriculture Organization (FAO) and the Department of Health and Human Services' Federal Occupational Health (FOH) component. In addition, we reviewed USAID's Automated Directives System (ADS) 202, *Achieving*; ADS 306, *Interagency Agreements*; ADS 308, *Grants and Cooperative Agreements with Public International Organizations*; ADS 596, *Management Accountability and Control*; ADS 602, *Forward Funding of Program Funds*, and ADS 621, *Obligations*, among others.

Finally, we reviewed legislation applicable to USAID's avian influenza activities that included the Emergency Supplemental Appropriations Act for Defense, the Global War on Terror, and Tsunami Relief, 2005 (Public Law. 109-13); the Department of Defense, Emergency Supplemental Appropriations to Address Hurricanes in the Gulf of Mexico, and Pandemic Influenza Act, 2006 (Public Law 109-148); and the Emergency Supplemental Appropriations Act for Defense, the Global War on Terror, and Hurricane Recovery, 2006 (Public Law 109-234).

Next, we determined USAID's assigned activities by consulting the *Implementation Plan for the National Strategy for Pandemic Influenza*, as well as reports on the achievement of those activities submitted to the Homeland Security Council in October 2006. For selected activities pertaining to bird flu commodities, USAID/Indonesia, and the countries serviced by RDMA, we determined whether the audit evidence supported the assertions in those reports. We supplemented these determinations by also reviewing other reports required by the applicable funding statutes, in addition to the AI Unit's own internal monitoring program.

We interviewed staff from the AI Unit, OFDA, FOH, FAO and the Department of Agriculture's Animal and Plant Health Inspection Service to understand the processes by which commodities were procured, deployed, and used in the field. We then evaluated management controls and inspected relevant documents pertaining to the purchase and shipment of the commodities. In addition, we visited the facility that packaged over 1.5 million personal protective equipment kits and toured warehouses in Georgia and Indonesia containing about 1.4 million of those kits.

During our field work in Thailand and Indonesia, we also first interviewed missions' staff to determine the nature and extent of the missions' bird flu activities. Next, we inspected documentation and procedures related to a broad range of bird flu activities, including the recording of financial information, monitoring and evaluating program performance, and reporting results to external stakeholders. In Indonesia, we accompanied a two-person Participatory Disease Surveillance (PDS) team during an evaluation of a suspected bird flu poultry outbreak in the province of Yogyakarta on central Java, and observed its operating methods. In addition, we observed a two-person Participatory Disease Response (PDR) team conducting an educational seminar for local villagers. During our site visit to Yogyakarta, we also participated in a briefing with Indonesian officials.

We did not determine materiality thresholds for the audit objective because we based our fieldwork on programmatic impact and predominant share of budgeted funds.

MANAGEMENT COMMENTS



May 25, 2007

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

FROM: GH/HIDN/AI, Dennis Carroll, Director

SUBJECT: Management Comments on the Audit of USAID's Avian Influenza Efforts
(Report no. 9-000-07-XXX-P)

This memorandum transmits the Bureau for Global Health, Office of Health, Infectious Diseases and Nutrition, Avian and Pandemic Influenza Management and Response Unit's (AI Unit) response to the draft audit report titled "Audit of USAID's Avian Influenza Efforts" audit report no. 9-000-07-XXX-P, dated May, 2007.

Background

On October 3rd, 2005, the USAID Administrator announced in a priority executive message to the Agency the formation of the Avian and Pandemic Influenza Management and Response Unit (AI Unit) headed by Dr. Dennis Carroll. In January 2006, Congress appropriated an additional \$279.5 million in emergency supplemental funding for USG international response activities. Of this amount, \$131.5 million was appropriated to USAID in recognition of the Agency's lead role in quickly mobilizing existing mechanisms to support the international response to H5N1. These supplemental funds were divided between the Child Survival and Health (CSH) funds account (\$75.2 million) and the International Disaster and Famine Assistance (IDFA) account (\$56.3 million). In accordance with the legislation, OFDA assumed responsibility for managing and implementing IDFA funds, in coordination with the AI Unit, to develop a stockpile of essential health commodities and equipment and deploy them to affected countries.

Excerpt from H.R. 2863, FY06 Defense Appropriations Act (p. 105):

CHILD SURVIVAL AND HEALTH PROGRAMS FUND

For an additional amount for "Child Survival and Health Programs Fund" for activities related to surveillance, planning, preparedness, and response to the avian influenza virus, \$75,200,000, to remain available until expended: *Provided*, That funds appropriated by this paragraph may be obligated and expended notwithstanding section 10 of Public Law 91-672: *Provided further*, That the amount provided under this heading is designated as an emergency requirement pursuant to section 402 of H. Con. Res. 95 (109th Congress), the concurrent resolution on the budget for fiscal year 2006.

INTERNATIONAL DISASTER AND FAMINE ASSISTANCE

For an additional amount for ‘‘International Disaster and Famine Assistance’’ for the pre-positioning and deployment of essential supplies and equipment for preparedness and response to the avian influenza virus, \$56,330,000, to remain available until expended: *Provided*, That funds appropriated by this paragraph may be obligated and expended notwithstanding section 10 of Public Law 91–672: *Provided further*, That the amount provided under this heading is designated as an emergency requirement pursuant to section 402 of H. Con. Res. 95 (109th Congress), the concurrent resolution on the budget for fiscal year 2006.

In May 2006, the U.S. Homeland Security Council published the National Implementation Plan (NIP) to the National Strategy for Pandemic Influenza, which laid out responsibilities and actions to be taken by departments and agencies across the Federal Government to prevent and prepare against a pandemic. Under the NIP, USAID plays a critical role in bridging between the human and animal health sectors to ensure a comprehensive and cross-sectoral international response to the threat of avian influenza. The NIP formally established USAID as a lead USG agency for implementing AI activities related to international disaster response, the development of health capacity abroad, including public health capacity, the training of non-health professionals, and operational coordination for the provision of U.S. international health and development assistance.

In November 2006 the Office of the Inspector General initiated an audit of the USAID avian influenza activities. The draft report to that audit was completed and transmitted to the Bureau for Global Health for comment on April 18, 2007. The comments below represent the Bureau for Global Health’s reaction to that document.

General comments

There are three broad issues with the report that deserve special attention. First is the fact that the IG did not clearly define the distinction between OFDA and the AI Unit. This theme runs throughout the report and confuses many of the recommendations as it calls on the AI Unit to undertake actions that come under the authority of OFDA, such as deobligation of funds. The report should have clarified the distinction in authority between these two units and recognized the responsibility of each unit when making recommendations.

Secondly, the report exaggerates issues using incorrect data. An example is the assertion that \$2.6 million worth of commodities were transferred to the FAO in Indonesia without proper transfer documentation. It is true that some PPE were sent to FAO without the full transfer documentation. However, the actual value of those commodities was approximately \$37,000 not \$2.6 million. While the AI Unit and OFDA strongly agree that the transfer of any amount of commodities without proper documentation is unacceptable, the impact of the report is distorted when incorrect data are used to describe the particular instance. The IG included commodities in its calculation that have never actually been shipped to Indonesia because they have not been needed to date. The report also fails to mention that proper procedures were put in place after the initial transfer and subsequent larger transfers did have the proper transfer documentation. This tendency to incorrectly state the scope of a problem leaves the reader with a false impression.

Finally, the report does not offer a proper balance regarding performance of the Agency. For example, the section on improving emergency shipping timeliness sites “one instance” where a shipment was delayed but fails to mention the other shipments made to over 70 countries that were timely. The report fails to put issues in perspective and casts the impression that delays were typical.

In spite of the weaknesses of the IG report, the AI Unit and OFDA found positive suggestions in the recommendations and have, in all cases, taken action to address the weaknesses. The following section provides comments and actions with respect to each recommendation.

Avian Influenza Unit should develop intra-agency agreement

Recommendation 1: *We recommend that USAID’s Bureau for Global Health’s Avian and Pandemic Influenza Management and Response Unit develop a written intra-agency agreement with other USAID offices responsible for executing bird flu programmatic activities.*

Comment: One important clarification needs to be raised with respect to this section. The draft report implies that the GH Bureau’s AI Unit is responsible for the management of the International Disaster and Famine Account (IDFA). The Congressional legislation appropriated the FY06 \$131 million AI funds into the IDFA (\$56 million) and Child Survival Accounts (\$75 million). DCHA/OFDA is solely responsible for managing the IDFA monies, not the AI Unit. While OFDA collaborated and worked with GH as part of the AI Unit in establishing the composition and standards of the kits, the AI Unit did not have managerial responsibility for the IDFA account. Regarding the use of the FOH agreement the report is incorrect when it notes that the “AI Unit entered into an agreement through another federal agency that was implemented by a separate USAID office to procure and ship commodities”. That agreement was with OFDA and not the AI Unit. The report persists in failing to recognize this distinction.

Action: It is agreed, however, that AI activities that involve intra-agency activities funded with GH AI funds should be clearly defined by agreements which spell out responsibilities and lines of authority. In the future the AI Unit will develop such agreements and is presently in the process of doing this with respect to the humanitarian response activities that will be shared between the AI Unit and OFDA.

Avian influenza unit should request deobligation reviews periodically

Recommendation 2: *We recommend that USAID’s Bureau for Global Health’s Avian and Pandemic Influenza Management and Response Unit determine the amount of unneeded, unliquidated obligations for bird flu commodities, which were estimated to be \$19,061,988 as of December 1, 2006 and request deobligation of what has already not been deobligated to date.*

Comment: The report mistakenly assigns the responsibility of financial oversight for the FOH agreement to the AI Unit. As has been noted, this responsibility resides with the Office of Foreign Disaster Assistance and not the Bureau for Global Health. While the AI Unit and OFDA closely consulted on all aspects of commodity management, the responsibility for managing the FOH agreement and any subsequent financial matters rested within OFDA.

The report incorrectly characterizes the matter of fund deobligation concerning avian influenza commodities. In late 2006 OFDA and the AI Unit discussed the ability of FOH to be able to deliver commodities under the conditions required by the AI Unit. It was decided that FOH would be unable to achieve the desired performance and that a new mechanism should be developed that could adequately provide the services that were required. The transition from FOH to this new mechanism had to take several realities into account:

- Until the new award was finalized FOH was the only mechanism which OFDA had available to transport and store commodities. This meant that an adequate level of funding needed to remain in the FOH agreement in order to cover any incident that could occur during the period of transition.
- When the new award was made by Global Health an adequate level of funding needed to be made available for the new mechanism to initiate its activities and cover its responsibilities for storing and delivering avian influenza commodities.
- Since the new award had to be bided, there was uncertainty as to how long the award process would take and when the new mechanism would be able to fully assume the commodity storage and delivery responsibilities.
- The transition period between these mechanisms was occurring at the peak of the influenza season and there was no way of knowing what commodities would be needed and where they would be needed. Therefore, the exact amount of funding that would be needed by which mechanism to cover the delivery of commodities was also not known.

Financial reviews indicated that approximately \$19 million remained in FOH in December of 2006. These funds represented savings from procurements and reserves for shipping and storage. Given the uncertainties of influenza outbreaks, all funds that resulted from savings on procurements were being held in reserve for shipping and possible new procurements should the need arise. Given this situation, the AI Unit and OFDA agreed to enter into a four step process for managing the transition of funds from FOH to the new mechanism.

1. Unobligated IDFA funds (\$2.397 million) that were still in OFDA would be immediately transferred to Global Health for obligation to the new mechanism as soon as it was awarded.
2. An initial deobligation from FOH of \$10 million was started so that those funds could be ready for reobligation as soon as possible after the award of the new mechanism. This deobligation was initiated in December of 2006 and the funds arrived in the Global Health Bureau in May of 2007. It was decided to deobligate \$10 million because this figure would insure enough funds for the new mechanism as well as maintaining an adequate level of funding in FOH to cover any expenses incurred during the transition. Since OFDA was still using FOH as the delivery mechanism for AI commodities and the demand was uncertain, this

3. amount seemed to be a safe level as it provided the new mechanism with adequate funding for at least 6 months and it would leave enough funds in FOH until the AI Unit and OFDA had a better picture of how long FOH's services would be required.
4. Once the new mechanism (Deliver Task Order 3) was in place and the demands on FOH were clear, OFDA began a second deobligation designed to leave only enough funds to cover legitimate costs incurred by FOH during the transition and close out. OFDA tasked FOH with developing this number on April 30, 2007. Once the amount is settled, it will be deobligated from FOH for reobligation into Deliver.
5. After close out of the agreement with FOH any remaining funds will be deobligated and transferred to the AI Unit for reobligation into Deliver. Since USAID is required to give the contractor a specific amount of time to submit their final voucher, the timing of this deobligation will depend on the rules governing such contractual matters. However, it is the intent of OFDA and FOH to make this final deobligation as small as possible in order to avoid locking funds into the agreement for a prolonged period of time.

In addition, in ADS 621.3.12, in paragraph 3, the ADS states that:

“Program and AMS or EMT Offices in USAID/W and Mission Controllers must coordinate an annual review of unexpended obligated balances to verify that excess and unneeded balances have been identified and deobligated. This can be done on a **quarterly basis**, in conjunction with accruals of expenditures.”

Although the review is described as continuously, the determination that funds are no longer needed is determined on a quarterly basis.

In this case, the determination OFDA made was based not on unneeded or excess funds, but on a management judgment that the Agency would be better served by a logistics mechanism that had the ability to track commodities with regularity. The initial objective and reason for using the Inter Agency Agreement (IAA) IAA with FOH -- to setup the standard for PPE and decontaminations kits and procure an emergency amount in the shortest possible time in advent of a pandemic at the greatest cost savings to the Government -- was accomplished. When it was clear that there was a different phase needed, OFDA together with the AI Unit discussed the best plan for the second phase to regularize the shipments. As a result a contract through GH was deemed the best next course. Since IDFA funds were designated for commodity distribution within the legislation, they could not be reobligated for other purposes without the consent of Congress. The AI Unit and OFDA developed the process outlined above to ensure that the funds could be transitioned in a timely manner and at no time did the commodity mechanisms (FOH and Deliver) suffer from a lack of funding. This process met the rules for deobligation established by USAID and provided for a smooth transition from one mechanism to another without any disruption in services. All of this information was made available to the IG. The IG assertion that “AI Unit managers did not request that OFDA deobligate the funds in a timely manner because the managers were not aware that unexpended obligated balances existed that could have been used for other planned, but unfunded, bird flu activities.” is inaccurate. As noted above the AI Unit managers and the OFDA were in constant contact about funding levels. The request to deobligate funds was made in December of 2006 and the OFDA proceeded to accomplish this deobligation in only 5 months.

Action: The AI Unit working with OFDA has already determined the unneeded funds in the FOH agreement and has begun the process of deobligation as described above.

Recommendation 3: *We recommend that USAID's Bureau for Global Health's Avian and Pandemic Influenza Management and Response Unit establish a schedule to monitor its unexpended obligation balances for opportunities to deobligate funds when no longer needed, in a timely manner.*

Comment: With respect to the agreement with FOH and the deobligation of funds, this responsibility was within the management authority of OFDA. OFDA was charged by Congress to implement the stockpile activity and it is within OFDA where those management decisions ultimately reside. The budget for the commodity stockpile was developed with several issues in mind: 1) the projected price of the commodities, 2) the different types of commodities that may be needed, 3) the projected demand for commodities, 4) the projected cost of delivery and storage of the commodities, 5) the role of other donors, and 6) the need for a reserve of funds for unexpected commodity needs. Given these issues and the uncertainty of the behavior of the virus, flexibility was essential in the management of the stockpile. OFDA and the AI Unit reviewed the financial reports on the stockpile on a regular basis. While it was known in December 2006 that approximately \$19 million remained in the FOH Agreement, the report is incorrect in asserting that those funds "could be deobligated and put to better use." Those funds were required for the continued distribution of commodities to whatever country the virus attacked next and the replenishment of commodities as they were consumed (i.e. more laboratory specimen kits were needed in addition to the original estimate). Additionally, those funds were earmarked by the appropriations bill to be used only for the "pre-positioning and deployment of essential supplies and equipment for preparedness and response to the avian influenza virus". To reallocate them for other purposes would violate the Congressional intent.

The decision in 2006 to deobligate \$10 million from the FOH agreement was because a new mechanism for the delivery of the commodities was being developed (the Deliver Task Order) and those funds were needed to transfer to that mechanism. Given the nature of the threat posed by avian influenza it would have been highly inappropriate for OFDA and the AI Unit to have shifted these funds to another purpose.

Action: The AI unit agrees that it is essential to continue reviewing unexpended obligations and look for opportunities to deobligate funds when they are no longer needed. The AI Unit will continue to do this on a quarterly basis as expenditures are entered into AIMEBA. This recommendation is being addressed.

Avian influenza unit should apply accounting principles consistently

Recommendation 4: *We recommend that USAID's Bureau for Global Health's Avian and Pandemic Influenza Management and Response Unit develop and implement procedures to ensure that the obligations and expenditures reported in the Avian*

Influenza Monitoring and Evaluation Budget Analysis database are consistent with the corresponding obligations and expenditures in the Agency's core financial management system at the end of any given accounting period.

Comment: The Avian Influenza Monitoring and Evaluation Budget Analysis database (AIMEBA) was not designed to replace the Agency's Phoenix accounting system but to complement it. The AI Unit's primary concern with the IG's findings is that no recognition is given to the differences in purpose and capabilities between the Phoenix and AIMEBA financial systems and, therefore, the need for a complementary system such as AIMEBA is completely missed. The two systems do occasionally report differences but these are because they are tracking finances in different ways to meet their respective needs. It is important to understand the differences and take these into account when reviewing the systems. Some of the most important differences are:

- Phoenix is the Agency's accounting system of record while AIMEBA is the financial tracking, management and reporting tool of the AI Unit. AIMEBA is capable of handling great levels of financial/programmatic detail allowing for programmatic oversight, course correction if necessary and Congressional reporting. These are functions that Phoenix cannot fulfill.
- Phoenix defines 'expenditure' as disbursement. AIMEBA defines 'expenditure' as vouchered expenses in addition to accruals.
- Phoenix data represents USAID partners' regular or irregular partner voucher submissions. With Phoenix, partners can submit vouchers at any time to the Agency. AIMEBA contacts partners directly and requests expenditures four times per year. Thus, AIMEBA does not depend on the presentation of vouchers to determine expenditures levels and, thus, the regularity or irregularity in the way a partner vouchers becomes irrelevant as all accruals are included with expenditures.
- Lastly, Phoenix is designed to use the "First In, First Out" (FIFO) payment method. Many of our AI implementing partners are also working in other areas and receive funding from those areas – POP, HIV, ID – as well. The AI Unit must be able to report to various constituents (i.e., Congress and the Department of State Coordinators Office) on AI expenditures by appropriation and on how much remains in the pipeline. Further, AIMEBA must seamlessly include reprogrammed funds in any of its financial reporting. AIMEBA is able to avoid complications due to the comingling of funds by querying implementing partners directly on the status of the AI funds that they have received. This level of detail is a requirement for statutory Congressional reporting for avian influenza. AIMEBA is capable of tracking financial information for all AI pillars including (1) Planning and Preparedness (2) Communications (3) Surveillance (4) Response and (5) Stockpile. Per instruction from Congress and from the State Department Avian Influenza Action Group, AIMEBA can and must associate all funding with these pillars, by country, and by appropriation and be able to report out in these terms/at this level of detail.

Action: The AI unit agrees that consistency in financial reporting is important and to strengthen management control and address the differences between AIMEBA and the Agency's core financial system, the AI Unit has implemented the following changes:

1. The timing of the AIMEBA expenditure collection has been changed to match the accruals collection timeframe of the Agency's core financial system.
2. The AI Unit budget coordinator is being trained in Phoenix and given access to it so that this person can fully monitor the system and see what information it is reporting

3. The AI Unit budget coordinator will analyze financial reports to account for differences between AIMEBA and the Agency's core financial system and, where possible, reconcile the differences and report the source of the differences.

This recommendation is being addressed.

Recommendation 5: *We recommend that USAID's Bureau for Global Health's Avian and Pandemic Influenza Management and Response Unit develop and implement procedures to ensure that staff responsible for reporting financial information in the Avian Influenza Monitoring and Evaluation Budget Analysis database are aware of USAID guidance and trained in the development of accruals.*

Action: AIMBEA guidance is being updated and will be published by May 30, 2007. This new guidance will include a section on ensuring consistency with the Agency's financial system. Additionally, the Budget Coordinator for the AI Unit has requested greater access to Phoenix and NMS in order to facilitate the process of reconciling expenditure data and accrual information. This recommendation is being addressed.

Avian influenza unit should improve commodity stockpile management

Recommendation 6: *We recommend that USAID's Bureau for Global Health's Avian and Pandemic Influenza Management and Response Unit determine the optimal staging areas for its bird flu commodities in order to meet specified timeframes.*

Action: In March 2007, a contract was awarded to John Snow International for the procurement, management and distribution of AI commodities. In July 2007, a trip is planned to the Southeast Asia region to begin assessing the efficiency and effectiveness of prepositioning AI commodities. By September 30, 2007 a policy on the use of staging areas will be finalized. This recommendation is being addressed.

Avian influenza unit should review commodity requirements

Recommendation 7: *We recommend that USAID's Bureau for Global Health's Avian and Pandemic Influenza Management and Response Unit develop procedures to periodically review and document its requirements for the procurement of commodities.*

Comment: The recognition of this panzootic and recurring human epidemic underpinned the technical recommendations for the stockpile as a fully considered, robust USG response. In face of an emerging pandemic threat, the mounting of a response capacity which included the procurement of Virkon, was technically indicated. This decision was extensively vetted within the agency, and discussed with the UN's Senior UN System Coordinator for Avian and Human Influenza, the WHO's Representative of the Director-General for Pandemic Influenza as well as technical staff within the USG. These peer-review procedures were well-documented

and are available to OIG investigators. This intensive process of review is an ongoing process that is designed to maintain a stockpile of appropriate and effective commodities. Since this review has been ongoing within the AI Unit and OFDA, the inclusion of this recommendation without any discussion in the body of the report seems somewhat gratuitous.

Action: The AI unit will continue to review the appropriateness of the commodities and make changes as necessary given sound scientific evidence and the support of qualified experts. This recommendation has been completed.

Recommendation 8: *We recommend that USAID's Bureau for Global Health's Avian and Pandemic Influenza Management and Response Unit review its commodity stockpile inventory to ensure adequate product shelf life exists and document a plan for final disposition accordingly.*

Comment: The report is accurate in pointing out that the procurement of Virkon with an expiration date of August, 2007 was never communicated to the AI Unit nor OFDA. This was an error and under the new Deliver Task Order, the contractor has been instructed to examine all products to determine if shelf life is an issue and if so bring the item to the attention of the AI Unit for immediate action. With respect to Virkon, an inventory of all Virkon containers remaining in the Atlanta warehouse was conducted and it was discovered that 116 pails expire in August 2007, 1,044 in December 2007, 232 in October 2008 and 8,016 in August 2009. Those pails that are expiring soon will be either used prior to expiration or replaced. Another consideration that the AI Unit is looking into is to submit the short shelf life product to the U.S. Government's Shelf Life Extension Program managed by the Department of Defense (DoD) and the Food and Drug Administration (FDA). This program reviews expired material to determine if it is still appropriate for use. In any event, proper procedures will be followed to ensure that only effective and appropriate material is being supplied.

The report also notes that "if all 2,000 decontamination kits shipped to Indonesia contained disinfectant that was expiring in August 2007, this would represent a cost of about \$402,000." First of all it needs to be noted that only 1,000 decontamination kits were ever shipped to Indonesia. Second, a recent inventory of those kits by FAO determined that on 19% of the remaining kits contained Virkon with an August 2007 expiration date. The remaining kits had Virkon with much latter expiration dates. FAO has committed to use all these remaining 51 drums before August 2007 and so there is no loss to the USG. The report seeks to draw unfounded conclusions from inaccurate and incomplete data.

The report also incorrectly states the value of a drum of Virkon. The actual value is \$151 per 5 kg drum and not \$201 as noted in the report. The total cost of the short shelf life (expiration August 2007) Virkon identified during the inventory is \$17,516.

Action: In March 2007, USAID awarded a contract to John Snow International (JSI) for the management, procurement and distribution of commodities. Included in that is the responsibility for ensuring adequate shelf life and disposing of expired products. The JSI contract has already inventoried the expiration dates for the Virkon pails remaining in the

stockpile and provided recommendations. The continuous monitoring of expirable products is a core deliverable under the JSI contract. This recommendation has been completed.

Avian influenza unit should improve emergency shipment timeliness

Recommendation 9: *We recommend that USAID's Bureau for Global Health's Avian and Pandemic Influenza Management and Response Unit's develop a strategy for the deployment of emergency bird flu commodities within established timeframes.*

Action: The AI Unit and OFDA recognized the limitations of FOH in being able to ship material on a timely basis and initiated the process to secure another contractor for this purpose in late 2006. On March 21, 2007 USAID awarded a contract to JSI/DELIVER which includes an emergency shipping component. As an interim measure during March and April 2007, as the DELIVER Task Order was putting into place the processes for meeting the delivery demands of the AI Unit, the AI Unit established an arrangement with the Office of Acquisition and Assistance to utilize their emergency freight-forwarding service in order to meet demands in a timely manner. During this period the AI unit sent eight shipments using this service and all met the time requirements. This recommendation has been completed.

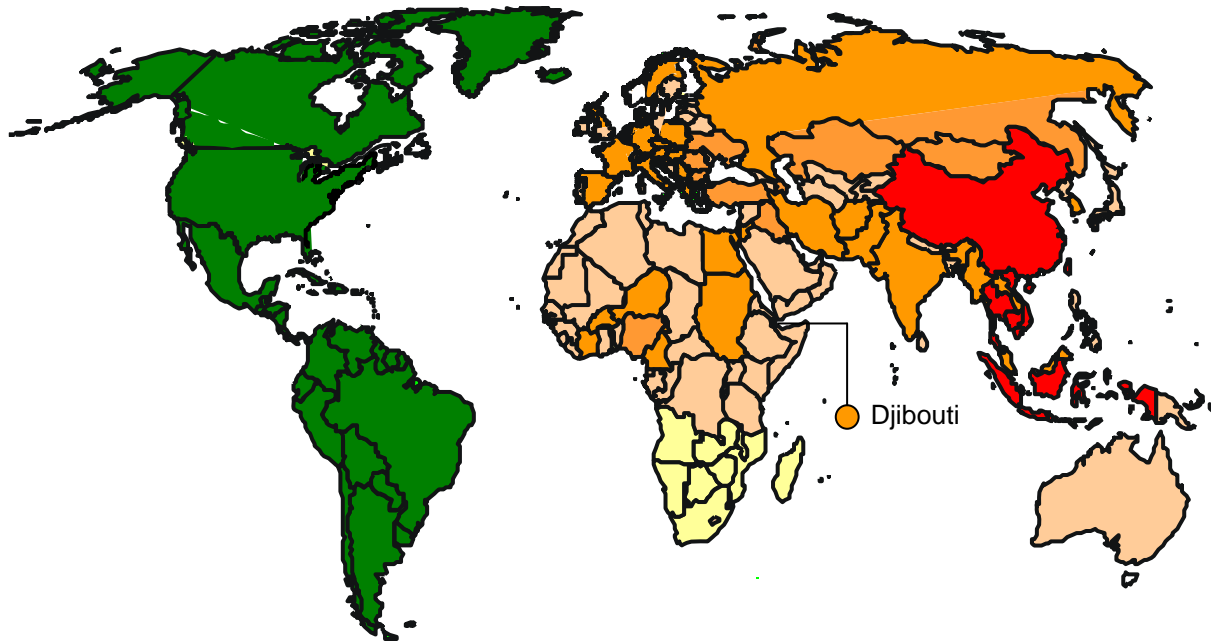
Avian influenza unit should improve controls over commodity transfers to ownership

Recommendation 10: *We recommend that USAID's Bureau for Global Health's Avian and Pandemic Influenza Management and Response Unit develop procedures to adequately document the transfer of ownership of bird flu commodities.*

Comment: While it is recognized that the first smaller commodity shipment to Indonesia did not have the appropriate transfer documentation, the lesson was learned and the subsequent and significantly larger shipment did have the appropriate documentation. The report is incorrect when it states that "AI Unit officials transferred commodities valued at \$2.6 million outside of the USAID for use by program implementers without proper documentation of the transfer of ownership". The total value of commodities shipped to Indonesia to date is \$1,261,750. The only commodities that were shipped without the full transfer documentation was the initial shipment of PPE valued at \$36,750. The remaining commodities valued at \$1,225,000 have the full documentation for transfer of ownership and those documents are available in Washington for inspection.

Action: In March 2007, transfer documents were developed for a large shipment to Indonesia. These documents will be the standard forms used for all commodity provisions. This recommendation has been completed.

Global Risk of Avian Influenza Outbreaks



Source: Unaudited AI Unit data.

Category 1	Category 2	Category 3	Category 4	Category 5
Endemic	Epidemic	High Risk	At-Risk	Pandemic risk
Widespread and recurring bird flu infections in animals since Dec. 2003	Isolated bird flu outbreaks in animals since July 2005	Proximal to endemic or epidemic countries, or at risk of animal outbreaks due to bird migration and/or transport	At risk of animal outbreaks due to bird migration and/or transport	At lower risk of animal outbreaks, but would be affected by a human influenza pandemic
Areas affected: South East Asia, including China, Indonesia, Vietnam, Cambodia, and Thailand.	Areas affected: Indian Subcontinent, Near East, Egypt, Sudan, Djibouti, Togo, Ghana, Nigeria, Niger, Cameroon, Burkina Faso, Ivory Coast, Jordan, Iraq, Kuwait, Bangladesh, Japan, and South Korea	Areas affected: Australia, Saharan Africa (except for Egypt), Central Africa, Central Asian Republics, New Guinea, Ireland, Belarus, Saudi Arabia, and Yemen	Areas affected: Southern Africa (south of the Democratic Republic of the Congo).	Areas affected: North America, South America, and Greenland.

Note: Areas affected refer to map above

**Priority Countries
For
Avian Influenza Activities**

Bureau for Africa

Nigeria

Bureau for Asia and the Near East

Afghanistan

Cambodia

China

Egypt

India

Indonesia

Iraq

Laos

Pakistan

Thailand

Vietnam

Bureau for Europe and Eurasia

Azerbaijan

Romania

Russia

Turkey

Ukraine

Bureau for Latin America and the Caribbean

Mexico

Other Countries

Canada

Source: Unaudited data from U.S. Homeland Security Council, dated May 3, 2006.

**Summary of
Planned Funding Levels**

ACTIVITY	FUNDING (millions)
Stockpile	\$56.3
Surveillance (Human and Animal)	51.2
Response (Human and Animal)	36.1
Communications	25.2
Preparedness	22.4
TOTAL Planned Funding	\$191.2

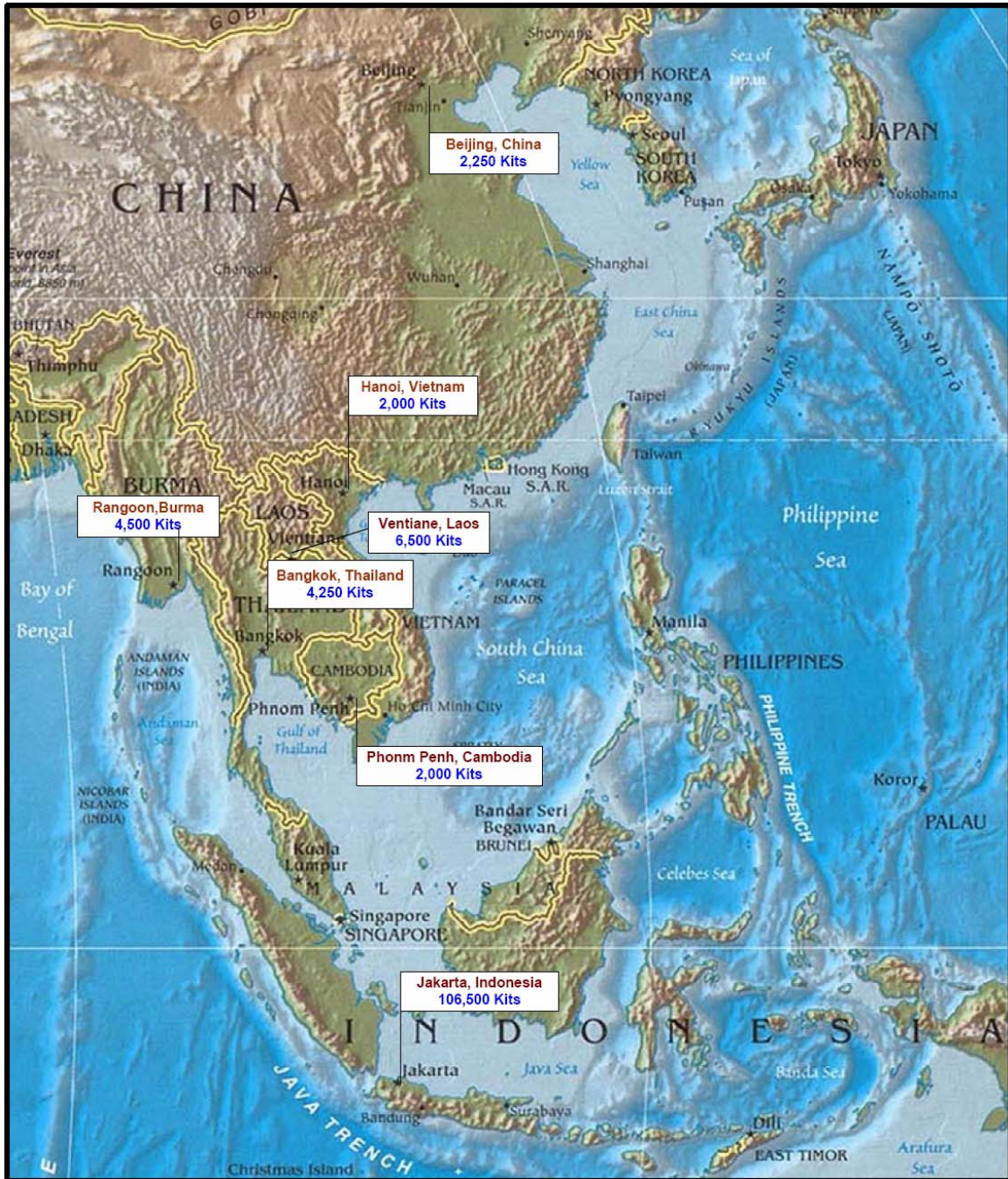
Source: Unaudited AI Unit data, as of December 8, 2006.

Avian Influenza Stockpile Obligations

DATE	OBLIGATING DOCUMENT	PURPOSE	AMOUNT (millions)
March 2006	Modification 1	Procure PPE/Fit test Kits, Freight	20.3
March 2006	Modification 2	Procure Decon/Lab Kits, Freight	13.5
June 2006	Modification 3	Procure supplies, Logistics/freight	20.0
TOTAL			\$53.8

Source: Unaudited OFDA data as of December 11, 2006.

Personal Protective Equipment Distribution in China and Southeast Asia



Source: Unaudited Regional Development Mission Asia data, as of February 1, 2007

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