

Board Chair Cover Note

Audit & Investigation Reports issued by the Global Fund's Office of the Inspector General on 1 November 2011

Dear Reader,

Today, the Global Fund has released eight audit reports, three investigation reports and one review of Global Fund systems by its Office of the Inspector General. The Inspector General regularly conducts audits and investigations. The audits are part of the Global Fund's regular and routine efforts to ensure that grant money is used as efficiently as possible. The investigations have arisen out of suspected wrong-doing found during audits.

It is unusual to release so many reports at one time. Ordinarily, reports of the Office of the Inspector General are released to the Board as and when they are finalized. On this occasion we agreed that these reports would be finalized after completion of the *'The Final Report of the High Level Independent Review Panel on Fiduciary Controls and Oversight Mechanisms of the Global Fund'*. This ensured that the Global Fund Board, Secretariat and Inspector General could focus fully on the report of the High Level Panel and its recommendations.

The reports are:

- Audit Reports: Dominican Republic, Sri Lanka, Nigeria, Swaziland; four reports relating to the work of Population Services International (South Sudan, Madagascar, Togo, and Headquarters)
- A Review of the Global Fund Travel and Travel-related Health and Security policies
- Investigation Reports: Mauritania, India, and Nigeria

The country-specific reports cover grants from different Global Fund financing 'Rounds', and have implementation start dates commencing at various times since early 2004. Together, the reports review around US\$ 1 billion of grant financing. These reports take into account as far as possible, a number of the High Level Panel's recommendations. The Reports include comments from the Principal Recipients and contain a thorough management response and action plan from the Secretariat. Increased attention has been paid by the Office of the Inspector General to the tone of the Reports, without diluting the important message that each carries.

Specifically, the Reports tell us that the Global Fund must seek to recover up to US\$ 19.2 million from grants in eight countries. Around US\$ 17 million of this amount is for activities that are poorly accounted for, were not budgeted in the work plan, or fall within the Global Fund's current definition of an ineligible expense, which is an area that the High Level Panel report suggested be clarified for Principal Recipients. Some of the grant implementer responses contest relevant findings. From the perspective of the Office of the Inspector General, the reports present the evidence that has been found and recovery should be sought in full.

The Nigeria investigation report, which led from the audit, brings to the surface once again issues with the Local Fund Agent engagement model – raised very proactively also in the Inspector General’s reports for Mali in December of last year.

Whilst in no way seeking to reduce the importance of the concerns that come from the three investigation reports, they do come at a time when the Global Fund knows that it has to transform how it manages its grants – and how – most importantly – it proactively addresses risk in its portfolio. This cannot entirely prevent mismanagement in all grants, but it will certainly provide a better framework on which resources are channeled to partner countries.

At its November 2011 meeting, the Global Fund Board will consider a Consolidated Transformation Plan to bring into effect the High Level Panel’s recommendations on risk, grant management and improved fiduciary oversight.

More reports will come from the Inspector General and irregularities will continue to be found given the increasingly complex environments in which the Global Fund works. The Global Fund continues to strive to prevent loss, and we must ensure that the organization has the systems that enable us to take purposeful and immediate action when irregularities are discovered. Where there is dishonesty, we must pursue those involved.

The Global Fund is committed to the mission of saving lives and assisting countries in building strong and sustainable health systems. Emerging as an issue over the last years, but now very firmly confirmed from the Report of the High Level Panel, the Global Fund must be transformed at all levels.

The Consolidated Transformation Plan will provide the Secretariat, the Office of the Inspector General, and the Board with the means to make this transformation, and ensure ongoing service and accountability to the people whose lives we must save, and to those that fund that cause.

Best regards,

Simon Bland
Board Chair



THE OFFICE OF THE INSPECTOR GENERAL

The Global Fund to Fight AIDS, Tuberculosis and Malaria

**Country Audit of Global Fund Grants to the Democratic Socialist
Republic of Sri Lanka**

Audit Report GF-OIG-10-006
31 October 2011

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Abbreviations

| | |
|----------|---|
| ACT | Artemisinin-based Combination Therapy |
| JSF | Janasetha Shana Foundation |
| AIDS | Acquired Immune Deficiency Syndrome |
| AMC | Anti-Malaria Campaign |
| APCD | Activated Passive Case Detection |
| CCM | Country Coordinating Mechanism |
| CDD | Cosmetics Devices and Drugs |
| CP | Condition Precedent |
| DMT&S | Director of Medical Technology and Supplies |
| DOTS | Directly Observed Treatment, Short course |
| DQA | Data Quality Audit |
| EFR | Enhanced Financial Reporting |
| GDF | Global Drug Facility |
| GOSL | Government of Sri Lanka |
| HIV/AIDS | Human Immunodeficiency Virus/Acquired Immunodeficiency Syndrome |
| HSS | Health Systems Strengthening |
| IDH | Infectious Disease Hospital (IDH) |
| IDP | Internally Displaced Person |
| LFA | Local Fund Agent |
| LKR | Sri Lankan Rupee |
| LLIN | Long-lasting Insecticidal Net |
| LQA | Lot Quality Assurance |
| M&E | Monitoring and Evaluation |
| MARPs | Most-at-risk-populations |
| MDR | Multi Drug Resistance |
| MDR TB | Multi Drug Resistant Tuberculosis |
| MLT | Medical Lab Technician |
| MOH&N | Ministry of Healthcare & Nutrition |
| MSD | Medical Supplies Division |
| NDQAL | National Drug Quality Assurance Laboratory |
| NEMLSL | National Essential Medicines List of Sri Lanka |
| NGO | Non-Government Organization |
| NPTCCD | National Program for TB Control & Chest Diseases |
| NSACP | National STD/AIDS Control Program |
| NTRL | National TB Reference Laboratory |
| OIG | Office of the Inspector General |
| OSDV | On-Site Data Verification |
| PQR | Price & Quality Reporting |
| PR | Principal Recipient |
| PSM | Procurement and Supply Management |
| PU/DR | Progress Update and Disbursement Request |
| PwC | PricewaterhouseCoopers |
| QA | Quality Assurance |

| | |
|-----------|--|
| RDT | Rapid Diagnostic Test |
| RFQ | Request For Quotation |
| RMO | Regional Malaria Officer |
| Sarvodaya | Lanka Jathika Sarvodaya Shramadana Sangamaya (Inc.) |
| SLSI | Sri Lanka Standards Institution |
| SPC | State Pharmaceutical Corporation |
| SRs | Sub-recipients |
| TA | Technical Assistance |
| TB | Tuberculosis |
| TEDHA | Tropical and Environmental Disease and Health Associates |
| VAT | Value-added tax |
| WHO | World Health Organization |
| WHOPES | WHO Pesticides Evaluation Scheme |

Executive Summary

Introduction

1. In 2010, the OIG undertook an audit of all the Global Fund grants to the Democratic Socialist Republic of Sri Lanka. The purpose of the audit was to assess the Global Fund's grants had been used wisely to save lives in Sri Lanka and where necessary make recommendations to strengthen the management of the grants. The audit covered the transactions related to the 12 grants from Round 1 to 8 involving three PRs. These amounted to US\$ 68 million of which only US\$ 22 million had been disbursed.

2. This summary briefly highlights the findings and conclusions arising from the audit and the detailed findings are contained in the rest of the report.

3. The national strategies for the three Global Fund supported diseases reflect both the low prevalence (incidence) and the strife to either maintain this situation (HIV) or to further reduce incidence (TB) or to even opt for elimination (malaria). However, in situations where cases are few and far between - as is the case for both HIV and malaria and only slightly less so for tuberculosis - case detection takes disproportionate effort. Indeed losing proficiency and thereby missing or delaying the correct diagnosis is a major risk. 'Smart approaches' are thus needed to maintain both interest and competence at the level of the services and awareness amongst the population. GF support has been successful where it has instigated 'smart' (win-win) combinations in the above sense - as in quality assurance of lab diagnostics and in DOTS. It has been less successful where national programs failed to utilize opportunities - as in verifiable involvement of the private sector.

4. Indeed the Global Fund's requirement for lower-middle income countries to exclusively focus on poor and vulnerable populations does not sit well with ambitions of disease control and elimination in (very) low prevalence situations. For malaria, for example, the interventions need to be based on epidemiological arguments, regardless of considerations of poverty (or wealth). Another GF requirement for support to such countries, of cost sharing with domestic resources, is both sound and feasible, but could be better specified in terms of GF offering demonstrable added value ('making a difference'), for the purpose at hand. The case of malaria elimination could then be made for what it is: a costly effort in the current time, which, if successful, saves lives and costs in future.

5. Although historically successful the TB control program risks loss of momentum as there is, unlike in the malaria control program, no coherent drive to effectively decrease TB incidence. This would have been possible by more consciously addressing of the national TB program's objective of interrupting transmission, notably by including this in existing awareness raising programs. The achievement of widely accessible DOTS treatment, however, is an outstanding example of civil society responsiveness which deserves more publicity.

6. In all three disease programs there have been opportunities to make meaningful connections between the health system at large and the program

concerned; they have largely gone unrecognized. ‘Meaningful’ would in all cases have meant a *mutual* connection (‘win-win’) between the health system and the program. For the one proposal that had a HSS component attached to it (R9 HIV) this potential for ‘win win’ was absent. In fact, the HSS component of R9 HIV is for a project that is in all respects disassociated from the HIV programs which begs the question of (attributable) value for money.

7. There were generic issues that cut across at least two PRs or all three PRs. The key weaknesses noted in the financial management systems included (i) commingling of grant funds without an accounting system that could segregate the bank balances by donor (ii) using accounting software that lacked key checks and balances to ensure data integrity; (iii) incurring expenditure that was not in the approved budget and work plans; (iv) ineffective expenditure monitoring; (v) failure to follow up outstanding accountabilities for operational advances on a timely basis; and (vi) recording of expenses under incorrect budget lines. There were also instances noted of PR non-compliance with the grant agreement conditions put in place to safeguard program resources.

8. The key weaknesses noted in procurement and supply chain management were (i) the lack of adequate documentation to support procurements; (ii) failure to complete the Price Quality Reporting (PQR) mechanism; and (iii) failure to maintain a procurement register.

Ministry of Healthcare and Nutrition

9. The Ministry of Healthcare and Nutrition (MOH&N) is the PR responsible for all Global Fund grants to the public sector for the three diseases. The Ministry’s financial statements received a qualified audit opinion based on (i) differences between fund balances as per the program records and the records held by the Government treasury records; (ii) failure to maintain a proper accounting system; and (iii) long outstanding program advances. At the time of the audit, an ageing of advances revealed that approximately 51% i.e. some US\$ 141,385 had been outstanding for more than six months.

10. There were various unreconciled differences noted between various records that bring into question the accuracy of PUDRs/financial reports submitted to the Global Fund. The differences that should be analyzed and explained were between:

- (i) the program audited financial statements from 2003-8 and the PU/DRs submitted to the Global Fund amounting to US\$ 344,981;
- (ii) the program financial records and the latest PU/DR submitted to the Global Fund amounting to US\$ 70,286; and
- (iii) the PU/DR and the cash balance schedule as per the treasury department amounting to US\$ 639, 231.

11. There were several inter-grant transfers noted for which there was no evidence of prior approval by the Global Fund. These amounted to LKR 70,596,544 (US\$ 616,240) and the OIG did not see evidence that these amounts were refunded to the appropriate grants.

12. There were budget reallocations noted without Secretariat approval. For example there was an overspend of some US\$ 368,472 on vehicles, a transfer of US\$ 26,187 to finance expenditure that was not program related etc. There were instances noted where the OIG questioned whether value for money had been obtained i.e. (i) the selection of conical nets over rectangular nets when conical nets were almost 50% higher than rectangular nets; (ii) the purchase of 50 microscopes in 2006 which were only distributed at the time of the audit in 2010; and (iii) the purchase of 40 motorcycles, 12 of which were not used for program related activities.

13. This PR also procured nets that were not WHOPEs approved LLINs. This was contrary to Global Fund policies that require all nets procured from grant funds to be WHOPEs approved LLINs. The local supplier promised to produce nets using the same material as the Olyset® nets. The Sri Lanka Standards Institution (SLSI) tested the nets and concluded that the mesh size and dimensions did not comply with the standards for Olyset®.

14. The ineligible costs i.e. expenditure that was not in line with the budget and work plan approved by the Global Fund amounted to US\$ 1,220,745. The unsupported expenditure (i.e. expenditure whose supporting documents were not adequate to provide evidence that the activity took place and that the expenditure was in line with program activities) amounted to US\$ 186,681. These amounts should be refunded. The amounts that need to be reconciled amount to US\$ 1,331,765 and these reconciliations should be verified by the LFA.

Lanka Jatika Sarvodaya Shramadana Sangamaya (Sarvodaya)

15. There was an unreconciled difference between the financial records and the PU/DR submitted to the Global Fund amounting to US\$ 10,920. This difference should be analyzed and resolved.

16. A single bank account was maintained for the Round 1 Malaria and Round 1 Tuberculosis grants. In consequence, funds amounting to US\$ 167,671 (LKR 16,562,477) that should have been spent on malaria had been used instead for TB grant. There was no evidence that these funds were refunded. There were also other inter grant transfers noted for which no evidence of approval was provided. The OIG identified unapproved inter-grant transfers amounting to LKR US\$ 91,935 (LKR 10,429,000) to the MOH&N and US\$ 45,518 (LKR 5,214,500) to the Anti-Malaria Campaign, a program not covered by the Global Fund. Arrangements should be made to refund these amounts to the relevant programs.

17. Sarvodaya also procured 8,325 bed nets from a local manufacturer in 2004 at US\$ 14.42. The net prices from the local manufacturer were not WHOPEs approved, and were exorbitantly priced when compared with LLIN market prices. VAT was also paid on this transaction.

18. Ineligible costs amounted to US\$ 358,798 and unsupported expenditure amounted to US\$ 795,349. These amounts should be refunded. The amounts that need to be reconciled amount to US\$ 22,039 and these reconciliations should be verified by the LFA.

Tropical Environmental Disease and Health Associates Pvt. Ltd (TEDHA)

19. TEDHA has been a PR since September 2009 for the Round 8 Malaria grant. A project vehicle was purchased for US\$ 115,878 against a budget of US\$ 50,000. The overspending was met by purchasing four reconditioned vehicles at half the budgeted price of new vehicles. The new vehicle was used exclusively by the Program Director and not necessarily for program activities. The OIG also noted that the contract was awarded to the third lowest financial bidder and so was purchased at 43% higher than the lowest evaluated bid. The vehicles were not registered in the names of the PR but its associate organization.

20. The OIG's review of banking procedures revealed that (i) bank reconciliations for some bank accounts were not prepared; (ii) in cases where reconciliations were prepared, there were delays noted in preparing the reconciliation; and (iii) the February 2010 bank reconciliations for the HSBC and HNB bank accounts contained unresolved reconciling items amounting to US\$ 6,347 and US\$ 8,968 respectively.

21. The OIG noted some ineligible expenses relating to the payment of interest for a loan taken by TEDHA to start up the NGO amounting to US\$ 3,538; payment for the project director's residence amounting to US\$ 3,036; and payments to consultants (including TEDHA's directors) that exceeded actual time worked amounting to US\$ 10,917.

22. The ineligible costs amounted to US\$ 85,583. These amounts should be refunded. The amounts that need to be reconciled amount to US\$ 15,315 and these reconciliations should be verified by the LFA.

Grant Oversight

The CCM

23. The CCM representation was in line with the Global Fund policies. However, non-governmental representatives were not adequately engaged in the meetings. The PRs and SRs also sat on the CCM and the conflict of interest policy was inadequate to mitigate resultant risks. Inadequate CCM funding as in other countries, was an issue in Sri Lanka. In consequence, program funds had been used to cover CCM related costs.

LFA

24. PricewaterhouseCoopers (PwC) has served as the LFA for Sri Lanka since the inception of the Global Fund grants. PwC has made some effort to improve its performance as LFA, including increasing the number of staff involved in overseeing the Global Fund programs. However, the involvement of PSM experts happened only twice in the seven years the grants were operational yet procurement comprises 70% of the Sri Lankan grants. The OIG identifies various areas where the LFA work can be strengthened in order to provide the Secretariat with better assurance about grants e.g. following a risk based approach.

Development Partners

25. The development partners have played a significant role in supporting Global Fund program implementation, including efforts to strengthen the CCM's roles and responsibility. A number of partners displayed considerable goodwill and commitment towards the programs in an effort to ensure that the program goals were achieved, and some partners even provided technical support.

Global Fund Secretariat

26. The Global Fund's Secretariat has provided oversight to grant implementation with the Fund Portfolio Manager as its focal point. The oversight has included reviewing and approving grant related documentation, regular visits to the country and providing regular feed back to the country.

27. The Global Fund Secretariat in its role in managing grants, provided regular approval on particular cases which required a Global Fund decision. However there were other approvals provided that resulted in the programs contravening conditions stipulated in the grant agreement. There was no evidence in such cases that measures were put in place to mitigate any resultant risks. For example The Secretariat permitted the charging of taxes on goods procured with grant funding, the payment of costs of one grant's expenses from another grant's resources, charging of interest from a loan taken out to start up TEDHA to the program etc.

28. The OIG also noted that there had been no systematic process in place to monitor various recommendations from LFA reviews. Follow-up of actions appeared to be on an ad hoc basis. The OIG noted that a number of issues remained unresolved at the time of the audit.

Conclusion

29. Based on the outcome of the audit, the OIG concludes that the internal control environment requires significant improvement due to multiple instances of failures to adequately conform to applicable policies, operating standards, sound commercial practices, compliance with grant agreement and weak financial controls. Given the findings at the time of the audit, the OIG is not in a position to give reasonable assurance that grant funds disbursed to Sri Lanka had always been used appropriately and that value of money was assured in Global Fund investments.

Actions by the Global Fund after the Field Audit¹

30. The Global Fund undertook the following actions to address risk identified in the audit:

- (a) Together with the CCM, the PRs, and in collaboration with national stakeholders and development partners, the South and West Asia Regional Team, has identified and started implementation of mitigating measures to address

¹ Source: Memo from Director of Country Programs "Secretariat Response to the draft OIG Report TGF-OIG-10-xxx on the Democratic Socialist Republic of Sri Lanka"

- identified challenges and risks related to program and financial oversight as well as procurement and supply chain management;
- (b) Human resources capacity has been strengthened with the recruitment of staff with expertise in budget control, monitoring and evaluation and procurement; and
 - (c) All PRs have opened grant-specific bank accounts, accounting software have been installed by all PRs, and staff have received related training in order to strengthen financial compliance. The Regional Team also included conditions precedent to disbursement for all new grants signed for the grants to have grant-specific annual audits.

31. In consequence, some audit recommendations in this report may have been overtaken by the remedial action taken.

Audit recommendations and the way forward

32. Based on comments and action plans prepared by the Country to address the audit recommendations, the OIG is pleased to acknowledge the effort and commitment of the Country to address the audit recommendations. Some of the actions have already been completed and many more are ongoing. Furthermore, according to the Country, some of the recommendations related to recoveries have already been implemented. This rapid rate of implementation of audit recommendations furthers program implementation and is commendable. The OIG looks forward to validating the Secretariat's assessment of the progress of implementation of the recommendations and reporting on this to the Board of the Global Fund.

Introduction and Overview

Background

33. Sri Lanka is among the wealthier countries in the Indian Ocean region, but pockets of poverty persist, particularly in and around the central highlands. The economy is market-oriented, with manufacturing capacity taking over from a former dependence on agriculture. Two decades of civil war destroyed infrastructure and impeded socio economic development in the North and East but since the end of the war, reconstruction has been on-going. Sri Lanka is prone to natural disasters and has had landslides and floods in 2003, droughts from 2002 to 2004 as well as the December 2004 tsunami that devastated most of the coastal belt.

34. Sri Lanka boasts a high literacy rate and good health indices. This has been possible due to substantial investments in education and health by successive governments since independence. The free primary and secondary education system and the free healthcare system have resulted in Sri Lanka having a literacy rate and key health indices comparable to some more developed countries. Interestingly, these policies have continued with minor disruptions for short periods even in the conflict affected areas where unofficial ceasefires have been observed by both sides to enable vaccination campaigns and national school examinations to take place. While the health status indicators did not significantly deteriorate, the infrastructure, human resources, supplies and supervision in crisis-affected areas suffered.

35. There is also a thriving private health care sector. The majority of private service medical doctors, however, hold a full time position in a public service. This arrangement has helped to limit an erosion of capacity from public health services. Patients are therefore able to switch between public and private services and yet have the continuity of care with their own specialist doctor. This is of practical importance for TB and HIV/AIDS patients wishing to avoid stigmatization.

36. Having over US\$ 100 per capita government expenditure on health² is consistent with Sri Lanka's status as a lower-middle-income country yet the Government's resources are finite and the civil war has taken a heavy toll on the country. With diseases such as dengue fever taking the upper hand, the focus of resources is moving away from diseases that seem to have become less of a problem, such as malaria. However, the political support for malaria elimination is still there. Financing from the Global Fund is therefore seen as adding value to mainstream efforts.

The country audit

37. The Office of Inspector General (OIG), as part of its 2010 work plan, carried out an audit of the Global Fund grants to the Democratic Socialist Republic of Sri Lanka.

² http://hdrstats.undp.org/en/countries/data_sheets/cty_ds_LKA.html (2009; data quoted are of 2006)

Lanka. The purpose of the audit was to assess whether the Global Fund’s grants had been used wisely to save lives in Sri Lanka. The audit objectives were to:

- (a) Assess efficiency and effectiveness in the management and operations of grants;
- (b) Measure the soundness of systems, policies and procedures in safeguarding Global Fund resources;
- (c) Confirm compliance with the Global Fund grant agreement and related policies and procedures and the related laws of the country;
- (d) Identify any other risks that the Global Fund grants may be exposed to; and
- (e) Make recommendations to strengthen the management of the Global Fund grants in Sri Lanka.

In doing so, the following four areas were covered: (i) fiduciary management; (ii) procurement and supply chain management; (iii) limited scope of programmatic management and (iv) program oversight. The OIG deployed a multi-skilled team comprising audit specialists, a procurement and supply management specialist and a public health specialist.

38. Sri Lanka had applied for funding from the Global Fund amounting to US\$ 100 million. The total approved funding to Sri Lanka amounted to US\$ 68 million with disbursements at the time of the audit amounting to US\$ 22.2 million. The Round 9 HIV/AIDS grant was still under negotiation at the time of the audit. The details of the grants are provided in the table below:

| | | Round | Approved funding Phase 1& 2 US\$ | Funds disbursed US\$ |
|--------------|---------------------|-------|--|----------------------------|
| HIV/AIDS | MOH&N | 6 | 1,009,700 | \$302,600 |
| | Negotiation process | 9 | 19,398,656 | \$0 |
| Malaria | Sarvodaya | 1 | 5,176,412 | 4,633,887 |
| | MOH&N | 1 | 2,077,223 | 2,077,223 |
| | Sarvodaya | 4 | 1,347,200 | 1,152,684 |
| | MOH&N | 4 | 2,350,115 | 2,159,122 |
| | Sarvodaya | 8 | 5,970,720 | 1,471,303 |
| | MOH&N | 8 | 10,437,817 | 1,836,422 |
| | TEDHA | 8 | 5,221,844 | 2,810,551 |
| Tuberculosis | Sarvodaya | 1 | 475,020 | 268,292 |
| | MOH&N | 1 | 4,990,014 | 3,909,835 |
| | Sarvodaya | 6 | 957,593 | 624,995 |
| | MOH&N | 6 | 3,228,602 | 985,674 |
| | Total | | 68,276,809 | 22,232,688 |

Table 1: Source GF Web Site, 2 February 2010

Scope and methodology

39. The OIG audit covered all the active and closed grants of Sri Lanka from the inception of Global Fund-supported programs. It covered all aspects of management and operations of the grant programs, i.e. Principal Recipients (PRs), sub-recipients (SRs), Country Coordinating Mechanism (CCM), and the Local Fund Agent (LFA).

40. There have been two PRs since the inception of the grants in Sri Lanka i.e. the Ministry of Healthcare and Nutrition (MOH&N) and Lanka Jathika Sarvodaya Shramadana Sangamay (Sarvodaya). The Tropical and Environmental Diseases and Health Associates (Pvt) Ltd (TEDHA) was a new PR appointed under Round 8. The Global Fund supported programs contracted 13 SRs and these implemented programs involving some 24% of the funds disbursed to the country. The audit covered five of the 13 SRs i.e. Alliance Lanka, Seva Lanka Foundation (SLF), the local district affiliate of the International Association of Lions Clubs (Lions), Janasetha Shan Foundation (JSSF), and Sarvodaya (They are both a PR and SR). These were selected on the basis of materiality in terms of amounts disbursed to the SRs.

Audit scope limitation

41. In 2005, the Sunday Times, a local newspaper in Sri Lanka, published an article alleging that the MOH&N's procurement process for bed nets was not transparent. This matter was referred to the Sri Lanka's *Commission to Investigate Allegations of Bribery or Corruption* (Bribery Commission). At the time of the audit, the Commission had not issued a report due to the delay in receiving the relevant documents from the Ministry. This matter has been transferred to the OIG Investigations Unit and is not covered in this report.

42. There was some documentation that was not available for review during the audit as detailed in later in the report. These cases should be followed up by the LFA during its regular review of grant implementation.

The report

43. This report is presented by PR and within each PR by functional areas that is (i) financial management; (ii) sub grant management; and (iii) procurement and supply chain management. The report has a section dedicated to laying out generic control weaknesses that cut across at least two PRs. The service delivery, monitoring and reporting section lays out disease specific observations and also raises issues that are applicable to all three PRs. The report also has a section dedicated to the oversight arrangements of Global Fund supported programs.

44. Good internal control practices or significant achievements found during the audit are mentioned in the report, but they are not discussed in depth given that the purpose of the audit was to identify key risks and issues that needed to be addressed.

45. The recommendations have been prioritized. However, the implementation of all recommendations is essential in mitigating identified risks and strengthening the internal control environment in which the programs operate. The prioritization has been done to assist management in deciding on the order in which recommendations should be implemented. The categorization of recommendations is as follows:

- (a) *High priority*: Material concern, fundamental control weakness or non-compliance, which if not effectively managed, presents material risk and will be highly detrimental to the organization's interests, significantly erodes

internal control, or jeopardizes achievement of aims and objectives. It requires immediate attention by senior management;

- (b) *Significant priority*: There is a control weakness or noncompliance within the system, which presents a significant risk and management attention is required to remedy the situation within a reasonable period. If this is not managed, it could adversely affect the organization's interests, weaken internal control, or undermine achievement of aims and objectives; and
- (c) *Requires attention*: There is a minor control weakness or noncompliance within systems and proportional remedial action is required within an appropriate timescale. Here the adoption of best practice would improve or enhance systems, procedures and risk management for the organization's benefit.

Control Environment within which Programs were Implemented

46. This section of the report considers the control environment within which program implementation was undertaken. Issues that emerged during the OIG audit are mostly generic to, or cut across, all three PRs or at least two PRs. To avoid repetition of key issues across all the PRs, this section highlights the internal control issues that cut across at least two PRs. The subsequent sections address those issues that were unique to particular PRs. The CCM should ensure that the resultant recommendations are implemented by each of the PRs.

Compliance with Grant Agreement

47. The Global Fund requires PRs to comply with the grant agreement and the laws and regulations of Sri Lanka. Application of the conditions stipulated in the grant agreement should help to ensure that the control environment is adequate to safeguard Global Fund investments.

Conditions precedent (applicable to MOH&N and Sarvodaya)

48. The grant agreements list Conditions Precedent (CP) to disbursement which are meant to address capacity gaps identified during the assessment of PRs. The CPs are assigned to specific disbursements and should be met before relevant disbursements are effected. Disbursements were however noted to have been made without meeting the particular CPs that had been established. No evidence was seen of alternative measures being instituted to address the risks that the CPs were meant to address.

49. The key CPs that were not met at the time of relevant disbursement by PR are listed below:

- (a) MOH&N: The finalization and approval of the PSM and M&E plans for the Round 6 TB grant; annual financial audit report for Round 4 Malaria grant; completion of the Monitoring and Evaluation (M&E) strengthening tool for the Round 6 HIV/AIDS grant; and appointment of a program manager, accountant and M&E officer for the Round 6 HIV and Round 4 grants.
- (b) Sarvodaya: the submission of the M&E plan; the appointment of Program Manager and M&E specialist; and the submission of base line impact and outcomes and proposed targets to the Global Fund.

Submission of reports (applicable to MOH&N and Sarvodaya)

50. The grant agreement requires that PRs submit their quarterly reports within 45 days and an annual report to the Global Fund within 90 days of the period end. However, the PRs often submitted their reports late to the Global Fund. In consequence, this affected the Global Fund's ability to make timely disbursements. The OIG also noted instances where the information submitted to the Global Fund was inaccurate e.g. the in the case of MOH&N, the cumulative expenses reported in the PU/DR were incorrect (refers to paragraph 66).

51. The Global Fund guidelines also require that PRs complete an Enhanced Financial Report (EFR) that details actual expenses incurred by the program within 45 days of completion of the financial year. Sarvodaya did not submit an EFR for Round 6 Tuberculosis Grant for the period ended December 2009. The OIG also noted there were errors in the classification of expenditure resulting in the portrayal of an inaccurate financial position. For example, the MOH&N reported program advances given to the service providers and employees as actual expenditures in the EFRs. Sarvodaya classified service providers as SRs and wrongly classified expenditure incurred at SR level worth US\$ 820,785 as having been incurred at PR level.

Bank account (TEDHA and Sarvodaya)

52. The grant agreement requires the PR to keep grant funds in a bank account which bears interest and that at all times grants funds should be available in cash. The funds were kept in a current account (non-interest-bearing account) due to the high number of bank transactions per day. However, the unutilized grant funds were regularly invested in fixed and call deposits. Investing grant funds in this way may affect the implementation of program activities if funds are not readily available when required and also exposes the funds to risk of loss. In the case of TEDHA not all (US\$ 524) the interest earned (US\$ 39,450) was recorded and reported under the program.

SR management (applicable to MOH&N and Sarvodaya)

53. The OIG noted that an SR audit plan was not submitted to the Global Fund. The PR was required under the grant agreement to ensure that sub grant agreements with its SRs were aligned to the main grant agreement with the Global Fund. The following clauses stipulated in the main agreement did not feature in the sub grant agreement:

- (a) grant funds should not be employed to support or promote violence, aid terrorist or terrorist related activity, conduct money laundering activities or fund organizations known to support terrorism or that are involved in money laundering activities;
- (b) the conditions related to the bank accounts, interest and other program revenues; and
- (c) the conditions related to conflict of interest, anti-corruption and record retention.

Recommendation 1 (High priority)

The PRs should comply with the conditions stipulated in the grant agreement. This will strengthen the control environment within which Global Fund programs are implemented. Specifically, the PRs should:

- (a) *Ensure all CPs are met in a timely manner;*
- (b) *Comply with the reporting requirements of the Global Fund;*
- (c) *Strengthen their contracting with SRs;*
- (d) *Prepare the EFRs in accordance with the guidelines issued by the Global Fund;*
- (e) *Maintain grant funds in an interest bearing account to the extent practicable. All unutilized money should be held in cash at all times; and*

- (f) *Comply with the SR audit related conditions stipulated in the grant agreement.*

Financial management

54. The audit covered a review of the financial management systems in place to ensure that grant funds were (i) managed in accordance with the grant agreement; and (ii) used solely for program purposes; and that (iii) PRs maintained proper books of accounts and other documentation to support the costs incurred.

Commingling of funds (applicable to MOH&N and Sarvodaya)

55. The PRs maintained one bank account for various grants. MOH&N maintained grant funds in the same bank account as funds received from the treasury and Sarvodaya maintained funds for different Global Fund supported programs in one bank account. This represented commingling of funds and is only acceptable if proper books of account are maintained that show what monies have been received, spent and the allocation of bank balances by grant. If not properly managed, commingling of funds can result in funds being spent on activities that are not program related. In practice there were instances where these two PRs used grant funds for activities that were not program related. (Refers to paragraphs 68 and 118).

Recommendation 2 (High priority)

Global Fund resources should generally not be commingled with funds from other funding sources. In the event that this happens, proper books of account should be maintained and reconciliations prepared to show what Global Fund monies have been spent on and outstanding balances at any point in time.

Financial management systems (applicable to all PRs)

56. The three PRs maintained their books of account following the cash based system of accounting. The PRs maintained separate manual records to track advances outside the accounting system. TEDHA and MOH&N used the QuickBooks accounting software and Sarvodaya used Peachtree. Peachtree and QuickBooks were not well suited for the size of the PR's transactions as evidenced by their failure to:

- (a) provide for all transactions to be approved within the system before they were posted;
- (b) automatically generate unique transaction numbers. These numbers were manually assigned and this created room for errors and/or manipulation;
- (c) prevent further posting once an accounting period was closed off;
- (d) provide the requisite varied restrictions of access to users; and
- (e) restrict the processing and posting of duplicate invoices.

Recommendation 3 (High priority)

- (a) *The PR's financial management system should have appropriate checks and balances to ensure the integrity of financial data. The accounting software should be developed further i.e. by extending its functionality or alternatively consideration should be given to acquiring a new financial management*

system. Key success factors that need to be addressed by the financial management system include:

- *Functionality i.e. the ability of the system to produce information in the form in which it is required and in a timely manner;*
- *Flexibility of the system i.e. the ability to modify the FMS to support its changing business practices;*
- *Internal control i.e. appropriate internal controls should be applied to all system inputs, processing, and outputs to ensure resource use is consistent with policies and reliable data is obtained, maintained, and disclosed in reports.*
- *Backup and security of financial data;*
- *Ability to carry out self-diagnostic checks for integrity etc.*

(b) *The PRs should consider establishing an accruals based accounting system to strengthen the existing financial management system. The system should incorporate the various essential features and controls required by different stakeholders to avoid the duplication of effort in recording and delivering reports.*

57. The OIG reviewed budgetary control and noted that, with the exception of TEDHA, accountants only started recording the actual expenses against the budgeted activity in 2009. These comparisons were undertaken on an MS Excel spreadsheet i.e. outside the accounting system. In the case of TEDHA, the OIG noted that the wrong budget had been uploaded into the accounting system thus defeating the purpose of making any comparisons. There were also no processes in place for comparing and explaining significant variances between the periodic expenditures incurred and the approved budget. In some instances, the budget was changed to cover items that were not included in the approved budgets by the Global Fund. This points to ineffective budgetary control.

58. Staff did not have proper job descriptions that defined their roles, responsibilities and authorities within the program. A review of human resource and payroll processes revealed the lack of segregation of duties with the accountant preparing the employee master listing, processing the payroll and signing the payroll checks.

59. All PRs had weak segregation of duties with one person handling the posting, checking and reporting in the accounts department. This person was also the custodian for checks and prepared the bank reconciliations. This compromised the integrity of the financial system and created risk. In cases where segregation of duties is impossible due to limited resources, management should actively supervise the day to day financial operations in order to strengthen the control environment. The OIG did not see evidence of management's active supervision of the accountants involved.

Recommendation 4 (Significant)

(a) *The PRs should strengthen their budgeting frameworks to ensure that only eligible expenditure as per grant agreement is incurred. Budgetary reallocations should be justified in writing and approved before expenditure is*

incurred. The detailed program budget should be input into the accounting software with payments only processed against specific budget line items. The PR should institute a process where budgets are compared to actual expenditure periodically with significant variances investigated and followed up.

- (a) *Job descriptions should be developed for all staff to ensure that they are informed of their roles, responsibilities and authorities. To the extent possible, the PR should segregate the incompatible duties by reassigning current roles and responsibilities.*

Internal controls (applicable to MOH&N and Sarvodaya)

60. The PR manuals did not set out in sufficient detail the mandatory systems, policies and procedures that personnel involved in grant management and implementation were obliged to follow. The areas that that lacked sufficient coverage were:

- (a) Budget monitoring and management reporting;
- (b) SR selection, monitoring and closeout;
- (c) Allocation of common or shared costs;
- (d) HR i.e. provisions for allocation of staff time to programs and conflict of interest;
- (e) Vehicle management i.e. preparing vehicle log books and allocation of fuel and repair and maintenance costs based on vehicle usage;
- (f) Monthly financial closure of the books of account; and
- (g) Supporting documentation to be maintained for transactions.

61. The PRs did not maintain a proper documentation archiving systems. The poor filing system made document retrieval difficult especially for documentation related to procurement. The OIG identified numerous expenditures that were not supported with third party supporting documentation (details are provided later for both PRs).

62. The accounting software was not regularly backed up. The OIG also noted that the PRs did not have official email servers. Staff used their private emails to transact official business raising the risk of loss of official information.

63. The PRs did not prepare cash forecasts but based these requests to the Global Fund on the budgeted amount for the relevant period. In consequence, these balances were often revised after the LFA review.

Recommendation 5 (Requires attention)

- (a) *In order to strengthen the control environment within which the programs are being implemented, the PR should ensure that its policies and procedures adequately address the risks identified in the control environment within which the grants are implemented and provide adequate guidance to all stakeholders involved in program implementation.*

- (b) *The PR should set aside a secure internet and file server separate from the other personal computers used by program staff. Backups should be taken and copies kept off site. The PR should also improve the archiving system to ensure that the supporting documents are referenced and filed properly.*
- (c) *The PR should prepare cash forecasts to support applications for disbursements to the Global Fund. The PR should demonstrate that the amount requested is based on its reasonable cash flow needs for the upcoming period.*

Asset management (applicable to all PRs)

64. A review of the assets management process followed by the PRs identified the following weaknesses:

- (a) Physical verification of assets was not undertaken periodically against records;
- (b) Asset registers maintained were not comprehensive. The assets registers did not capture key asset information such as serial number, registration and chassis number, and asset tag number;
- (c) The asset registers were not reconciled with the financial records to ensure their completeness. For example, for the MOH&N, the assets register had not recorded 16 vehicles worth US \$ 686,107 procured in 2006 while in the case of Sarvodaya, there was a variance of US\$ 1,596 (LKR 182,837) between the assets register and the financial records;
- (d) The program fixed assets were not tagged with a unique number;
- (e) There was not a formal process for the authorization of the transfer of assets from one location to another; and
- (f) Assets other than vehicles were not insured.

Recommendation 6 (Requires attention)

All PRs should strengthen asset management by undertaking physical verification of assets and updating records accordingly, tagging assets with unique identification numbers, having comprehensive fixed asset records in place etc.

Ministry of Healthcare and Nutrition

Institutional Arrangements

65. The Ministry of Healthcare and Nutrition (MOH&N) is the PR responsible for all Global Fund grants to the public sector. The TB program was implemented by National Program for Tuberculosis Control and Chest Diseases (NPTCCD), the Malaria program by Anti Malaria Campaign and AIDS/HIV by National STD/AIDS Control Program (NSACP). The Global Fund programs are run within the Ministry as projects like all other foreign funded programs. The programs are coordinated by a team referred to as “The Global Fund Team” headed by the program director for each disease. At the time of the audit, the Director of the Anti-Malaria Campaign was acting as the overall project director for Global Fund programs to Sri Lanka.

Financial management systems

Books of accounts maintained

66. There were unreconciled differences between the audited financial statements and the PU/DRs submitted to the Global Fund amounting to US\$ 344,981 which the LFA could not explain. This amount went back to December 2003. There was also an unreconciled difference of US\$ 70,286 between the Global Fund supported program financial records and the latest PU/DR submitted to the Global Fund.

67. The grant funds for Rounds 1-6 were commingled with the funds received from the Treasury department for value-added tax (VAT) payments. Proper books of account were not maintained that could separate balances by funding source. A comparison of the cash balances per the treasury department against the cash balance reported in the PU/DR revealed an unreconciled difference of US\$ 639,231. The balance in the treasury department at 31 December 2009 was US\$ 1,225,023 while the balance per the PU/DR was as US\$ 585,792.

68. There were also several inter grant transfers noted for which there was no evidence of prior approval by the Global Fund. The seven transfers amounted to LKR 70,596,544 (US\$ 616,240). There was no evidence seen that these amounts were refunded to the appropriate grants. This raises the risk that funds may not have been available when needed to implement program activities.

Recommendation 7 (High priority)

(a) *Reconciliations should be prepared between (i) the financial records and the PU/DRs; and (ii) Treasury records and the program records with any variances justified. The reconciliation should be verified by the LFA.*

(b) *Inter grant borrowings should not occur because they can interrupt program implementation. The inter grant borrowings should be refunded with immediate effect. This should be verified by the LFA.*

Audit arrangements

69. The Auditor General's Department of Sri Lanka qualified opinions for the 2006 financial statements of the Global Fund supported programs. The basis of qualification was (i) differences between funds balances i.e. the program records and the records held by the Treasury records; (ii) failure to maintain a proper accounting system; and (iii) long outstanding program advances. The issues that gave rise to the qualifications had not been addressed at the time of the audit.

70. There was no internal audit function within the PR. Although the introduction of an internal audit function is not a mandatory requirement under Global Fund rules, it is a good practice that helps strengthen the control environment in programs. This is particularly recommended for reviewing the program implementation undertaken by SRs.

Recommendation 8 (Significant)

- (a) *The PR should implement the recommendations from external audit reports that remain outstanding.*
- (b) *The PR should consider establishing an internal audit function to review SRs and program implementation in the regions.*

Expenditure review

71. The OIG noted that there were unauthorized budget reallocations. In some instances, the reallocations were to cover items that were not included in the approved budget. Examples of such reallocations which represent ineligible expenditure include:

- (a) An overspend on the purchase of vehicles amounting to US\$ 368,472;
- (b) Administrative and traveling expenses for the CCM and MOH&N officials not related to the program amounting to US\$ 7,585 (LKR 868,902);
- (c) Payment of taxes on the purchase of goods and services when the program has a tax exemption status amounting to US\$ 189,779 (LKR 21,741,115); and
- (d) Transfer of US\$ 26,187 (LKR 3,000,000) to the Anti-Malaria Campaign under the Round 4 Malaria grant funds that was not program related.

72. Other issues noted through the review of a sample of expenditure revealed:

- (a) Expenses amounting to US\$ 3,459 (LKR 396,295) that were incurred prior to start date of the Round 6 HIV/AIDS grant;
- (b) Expenses amounting to US\$ 29,495 (LKR 3,379,553) that were not supported by appropriate third party supporting documentation;
- (c) Travel expenses worth US\$ 2,488 (LKR 285,011) that did not have any proof of travel attached. Instances were also noted where no accountability was provided for travel amounting to US\$ 37,650 (LKR 4,313,959); and
- (d) Three TB assistants that did not have contracts who were on the payroll. Their salaries amounted to US\$ 567 (LKR 65,000) per month.

73. At the time of the audit, the PR was reviewing its long outstanding program advances. The OIG's review of this exercise revealed that (i) the exercise did not

cover the malaria program; (ii) it was not aged; (iii) it did not capture the date when advances should have been settled; and (iv) the advances schedules did not capture the outstanding balances after this process. The OIG prepared an aging analysis that revealed that some 51% i.e. US\$ 141,385 of the US\$ 277,267 balance was six months overdue.

74. There were instances noted where the OIG questioned whether value for money was obtained from the monies spent. Examples included the following:

- (a) The PR purchased 50 microscopes amounting to US\$ 39,119 (LKR 4,481,500) for the National Tuberculosis Reference Laboratory on 6 April 2006. At the time of purchasing these microscopes, there were already some 45 microscopes in stock. These microscopes were only distributed to the laboratories on 11 March 2010; and
- (b) The PR had purchased 40 motorbikes amounting to US\$ 35,892 in January 2009 under the Tuberculosis grant. The OIG noted that 12 motorbikes were issued to MOH&N officials who were not working for the Global Fund program.

Recommendation 9 (Significant)

- (a) *The PR should strengthen its monitoring of program advances. All advances should be settled before subsequent advances are made. All outstanding advances should be cleared and recovery initiated in case of failure to liquidate the advances.*
- (b) *The Global Fund should provide written authority prior to incurring any expenditure before the grant start date. The PR should also ensure that all payments are supported with appropriate third party supporting documentation.*
- (c) *The PR should refund the costs for items not in the budget i.e. US\$ 592,023 to ensure funds are available to finance activities included in the approved budget.*
- (d) *The PR should strengthen the asset management function by reallocating the 12 motor cycles to Global Fund program related work.*

Sub-recipient management

75. Some of the activities relating to the Tuberculosis and the HIV/AIDS program were implemented through SRs. As part of the audit, the OIG visited two SRs (Alliance Lanka and Seva Lanka) covering 57% of the total sub-grants.

76. A review of the process for awarding sub-grants and monitoring the performance of SRs revealed that SR capacity assessments had not been undertaken under the TB Round 1 grant. The sub grant agreements also provided for the SRs to submit a performance bond or bank guarantee of 10% of the sub-grant value before a disbursement could be made. It was suggested to the OIG that this stringent requirement may discourage competent implementers from applying to be SRs or result in a delay in the implementation of program activities.

77. The PR did not institute formal guidelines and manuals outlining the operational, financial and budgeting requirements that SRs should comply with when administering Global Fund grants. Areas noted as requiring strengthening at SR level

included fixed assets, inventory management, human resources, budget management reporting and the allocation of shared program/ indirect costs. There was also inadequate segregation of duties with the program accountant booking expenses, processing vendor payments, maintaining and preparing bank reconciliation statements.

78. There was no system in place to ensure regular reporting from SRs in accordance with the SR agreement. The two SRs reviewed did not submit annual reports as required in the sub grant agreement. There was no evidence of the PR following up on these SRs. There were also significant delays noted in the submission of the quarterly reports to the PR. This affected the PR's ability to report on a timely basis to the Global Fund.

79. Funds worth US\$ 8,059 were wrongly credited to Alliance's bank account instead of Seva Lanka and this had not been corrected at the time of the audit. This resulted in a difference of US\$ 8,058 reported between Alliance's report to the PR and its books of account at 23 Feb 2010. The expenses reported in the expenditure summary were higher than the financial records of Round 6 HIV Phase 1. Alliance should refund this amount.

80. The OIG reviewed SR expenditure and noted certain weaknesses that had not been picked up in the PR's review of accountabilities:

- (a) Alliance Lanka: Expenditure worth US\$ 3,171 (LKR 363,340) was not in the approved budget; VAT expenses worth US\$ 4,070 (LKR 466,277) were paid from program resources; and Alliance charged the program US\$ 1,781 (LKR 204,000) for the hire of its own car; and
- (b) Seva Lanka: Expenditure was charged to the Tuberculosis Round 1 grant on the basis of a standard rate defined by the SR and not on actual expenses incurred. Without supporting documentation, one cannot ascertain that the program funds were used for program related activities. Total expenses paid to SR amounted to US\$ 54,460 (LKR 6,238,891).

81. There were no procedures for closing sub-grant agreements. The PR also did not have a defined checklist of activities to be performed to close out the sub-grants. The Alliance Lanka sub grant agreement expired six months after the grant agreement with the Global Fund expired. Although agreements with Seva Lanka Foundation and Independent Medical Practitioners Association ended on 31 August 2008, these sub-grants had not been closed at the time of the audit.

Recommendation 10 (Significant)

MOH&N's management of its SRs should be strengthened by:

- (a) *undertaking capacity assessments for proposed SRs. The PR should consider instituting alternative measures to ensure performance other than obtaining a performance bond or bank guarantee e.g. performance based funding.*
- (b) *establishing a comprehensive grant management procedures that covers disbursement and accountability; programmatic and financial reporting (including formats); budget tracking and analysis; maintenance of accounting records; assets management including inventory management; charging of administration and overhead costs, procurement policies etc. Reference to this*

manual should be made in the grant agreement that SRs are obliged to comply with.

(c) *Improving SR monitoring. A comprehensive review of SR expenditure should be undertaken in line with the approved budgets and work plans. All outstanding reports from SRs should be followed up. The PR should also formally close out all sub grants that have expired.*

(d) *Recovering all unsupported and ineligible expenditure from SRs.*

Procurement and supply management

Procurement management

82. The MOH&N has been PR since the start of the Global Fund in Round 1 (TB and malaria), 4 (malaria), 6 (TB and HIV/AIDS), 8 (malaria) and 9 (HIV/AIDS). To date procurement with a value of approximately US\$ 11.5 million has been undertaken and this has related mainly to LLINs, pharmaceuticals, laboratory supplies and non-health products.

83. The three disease programs all had different PSM arrangements. In 2007, the procurement of LLINs by MOH&N was outsourced to a Procurement Agency. Procurement of medicines for the HIV/AIDS program was carried out by the State Pharmaceutical Corporation with support from the Clinton Foundation HIV/AIDS Initiative (CHAI) based on a Memorandum of Understanding with MOH&N³. The national TB program had outsourced procurement of pharmaceuticals to the Global Drug Facility (GDF) and the Green Light Committee (GLC), both in Geneva.

84. The country applied the Global Fund PSM policies and principles⁴ and also followed the national public procurement guidelines in Sri Lanka⁵. Donor guidelines take precedence in cases where the procurement is undertaken with donor funds. The national guidelines were first published in 1996 and last reviewed in 2006 with support from the World Bank. They are regarded as compliant with the international standards and best practices. There were specific guidelines for the procurement of pharmaceuticals, which are the prerogative of the State Pharmaceutical Corporation (SPC).

85. Other key authorities relevant to the PSM function were:

- (a) The Cosmetics Devices and Drugs Authority (CDD) provides the legislative framework to control the manufacturing, import, trade and use of drugs and medical devices. Only medicines and medical devices approved by the CDD Authority may be brought on to the market in Sri Lanka. The CDD was

³ Memorandum of Understanding between the Government of Sri Lanka and the Clinton Foundation HIV/AIDS Initiative, 28 March 2007

⁴ GFATM, Guide to the Global Fund's Policies on Procurement and Supply Management, April 2004 and November 2009

⁵ All guidelines may be found at

<http://www.treasury.gov.lk/FPPFM/pfd/publications/guidelines.html#ProcurementGuidelines>

instrumental in issuing waivers, where necessary, for medicines and medical devices brought into the country for Global Fund programs.

- (b) The National Drug Quality Assurance Laboratory (NDQAL) tests and registers the medical devices and drugs.
- (c) The Medical Supplies Division (MSD) estimates, stores and distributes the medical supplies (drugs, devices and laboratory supplies).
- (d) The State Pharmaceutical Corporation (SPC) is responsible for the timely procurement of the drugs and supplies. SPC used its own quality control laboratory for the batch-quality control of drugs and devices procured.
- (e) The use of insecticides (including the ones used in LLINs) is regulated by the Office of the Registrar of Pesticides⁶ which has the national responsibility to ensure that only high quality and least hazardous pesticides enter the market in Sri Lanka.

86. The full application of the GOSL procurement guidelines was a challenge due to the limited number of qualified procurement staff at the MOH&N. The procurement regulations provide for programs to appoint procurement experts and regular staff for projects (like the Global Fund supported program) but this provision was not applied to the program. In consequence, the quality of staff involved in PSM varied widely but none of the disease programs had qualified procurement staff. PSM functions were in large measure executed by the program directors and their technical staff. The three directors acknowledged that PSM technical staff would need to be recruited in order to comply with the Global Fund and GOSL guidelines.

87. None of the three programs complied with the drug management guidelines of the MOH&N⁷. For example, none had a Drug Review Committee in place as was required for the annual forecasting and costing. Monthly meetings with program management staff were the only forum where PSM related matters were discussed. The discussions were mainly focused on distribution and the sharing of information with the relevant technical people (e.g. the pharmacists) often did not take place. For example the NSACP pharmacists were not aware of the approved HIV PSM plan.

88. Similar observations were made by the LFA PSM expert but never acted upon. The lack of suitably qualified staff contributed to the failure to comply with the existing legislation and requirements, from government and the Global Fund.

PSM policy and planning

89. Although all programs used a Technical Evaluation Committee and Procurement Committees⁸ as per general GOSL Procurement Guidelines. With the exception of ARVs none applied the mandatory procurement planning as per specific

⁶ See

[http://www.agridept.gov.lk/doa/menudata.php?mMenu=Seed%20Certification%20and%20Plant%20Protection&sMenu=Office%20of%20the%20Registrar%20of%20Pesticides%20\(ORP\)](http://www.agridept.gov.lk/doa/menudata.php?mMenu=Seed%20Certification%20and%20Plant%20Protection&sMenu=Office%20of%20the%20Registrar%20of%20Pesticides%20(ORP))

⁷ Ministry of Health Care & Nutrition, Manual on Management of Drugs Second Revision, 2008

⁸ The different Procurement Committees used are Project (or Department) Procurement Committee (PPC or DPC, up to US\$ 15,000), MOH&N Procurement Committee (MPC, between US\$ 15,000 and US\$ 1 million) or the Cabinet Approved Procurement Committee (CAPC, more than US\$ 1 million)

GOSL guidelines or the existing GOSL regulations and arrangements for pharmaceuticals and medical devices, such as ordering through MSD and SPC.

90. The information contained in the PSM plans was sometimes inaccurate. For example, contrary to what was stated in the PSM plans, none of the programs had a comprehensive Management Information System (MIS) that could provide a consolidated overview of purchases made, receipts, stocks and distribution of the goods or a monitoring report on the progress of implementation against PSM plans. A procurement register was available but was not complete since it contained transactions worth approximately US\$ 1.4 million, which is only 12% of total procurement transactions by MOH&N using Global Fund resources.

91. The PSM plans described the existing systems only to a limited extent and were not precise on, for example, who and how procurement and logistics management would be undertaken. The LFA PSM expert noted that there had not been much progress noted in the quality of PSM plans since the initial plans were presented in 2005⁹. Some parts of the plan were just copied and pasted from previous plans e.g. the TB Round 6 PSM Plan presented in 2010 still mentioned the National Procurement Authority as the procurement authority when this function had been taken over by the Procurement Management Division of the Ministry of Finance and Planning since 2009. The PSM planning process should be strengthened in order to make it an effective management tool for controlling PSM activities.

92. There was no documented evidence of approval by the Global Fund Secretariat of the PSM plans with the exception of the Round 1 Malaria, Round 4 Malaria and Round 6 Phase I Tuberculosis grants.

Recommendation 11 (High priority)

The PSM management and planning function should be strengthened by appointing appropriately qualified staff to the procurement function; and developing and implementing procurement manuals for the PR in line with GOSL regulations and Global Fund policies.

Product selection and quantification

93. The selection and quantification of medicines was generally based on the national Essential Medicines List. The OIG followed up some key health products under the TB and Malaria program. The OIG noted that the Malaria Rapid Diagnostic Test Kits (RDTs) had been out of stock for more than a year at both central and district level according to the records. This was attributed to some quantification problems. Stock levels for glass slides were very low at the central level i.e. AMC Central Laboratory, Colombo, but there were excessive stocks (about two years) at district level in Anuradhapura. This all points to weaknesses in the PSM system for AMC.

⁹ M. Bandusena, Johan van Haperen, Procurement and Supply Management Assessment Report Principal Recipient PR 1 Ministry of Health Malaria & TB components PR 2 SARVODAYA Malaria Component SRI LANKA Round 1 and 4, Local Fund Agent PricewaterhouseCoopers, August 2005.

94. All health products procured were in accordance with the standard treatment guidelines, which were in line with up to date WHO standards. With exception of mefloquine tablets, all pharmaceuticals under the programs were included in the National Essential Medicines List of Sri Lanka (NEMLSL). Mefloquine was used exclusively for travellers to malaria prone areas overseas and was, as such, not regarded as essential for use in Sri Lanka. However, specifications of laboratory supplies need to be more precisely defined, especially with regard to the required unit size, packaging and quality.

95. Drug quantification is approached differently for the three programs. For malaria, the number of cases had reduced to such an extent that it was impractical to make a reliable prediction. For ARVs the number of patients on treatment increased from 153 in 2008 to 204 in 2009. This limited number of patients is quite easily managed centrally by a patient monitoring system run by two pharmacists at the NSACP. The TB program uses the GDF tools for forecasting and ordering of drugs and this is managed by the well-trained pharmacists of the NPTCCD. In 2009, second line drugs for Multi Drug Resistance TB worth US\$ 14,025 were bought which was in line with the fact that there were only four patients with MDR TB. The estimated number of MDRTB patients was 8 but this number had not emerged at the time of the audit.

96. There was generally no agreement about what types of nets to purchase i.e. whether the cheaper rectangular nets or the more expensive conical nets. The AMC had since 2004 procured varying shapes and sizes of LLINs. The conical shaped nets increased the overall net costs and in consequence resulted in a reduction of nets procured by 10% but most stakeholders interviewed expressed different sentiments with some stating that households prefer for conical nets but the internally displaced persons (IDP) preferred the rectangular nets because conical nets required a lot of space and a rather high ceiling. However the program continued to buy the more expensive conical nets.

Recommendation 12 (High priority)

- (a) The country should undertake a cost benefit analysis and develop specifications for nets that would suit the beneficiaries at a reasonable cost. The quantification for LLINs should also be revisited.*
- (b) The quantification process for RDTs should be strengthened. A computerized MIS system should be instituted at both central and regional offices as already indicated in the PSM plan for Malaria grants.*

Procurement

97. Value for Money was obtained for TB drugs and ARVs, but this was questionable for other items, notably LLINs. This is due to access to negotiated prices by GDF for TB drugs and CHAI for ARVs. At the time of the audit, approximately 975,350 LLINs had been purchased with the percentage of conical nets being 53%. The conical nets cost US\$ 7.21, which is about 50% higher than the international prices for rectangular nets. The PR's choice of conical nets resulted in

the purchase of fewer nets than had been budgeted. When compared to other countries in Asia, the OIG noted that Sri Lanka's net costs were very high.

98. The OIG noted that tender advertisements were restricted to the MOH&N website and local papers. The use of international press and websites with wider supplier networks, such as UN Business Development (www.devbusiness.com), devex (www.devex.com) or dgMarket (www.dgmarket.com) in order to capture a greater audience was not considered. The OIG noted that the process for identifying a procurement agent and net suppliers in 2006-07 did not follow the GOSL guidelines. No justification was provided for the restriction of these tenders to a few companies.

99. The grant agreement stipulates the conditions that should apply to contracts for goods and services, purchase of pharmaceutical and other health products that the PR is obliged to comply with. The OIG noted instances of non-compliance with the grant agreement requirements as detailed below:

- (a) Members of the Procurement Committee and the Technical Evaluation Committee were not required to make conflict of interest declarations before being involved in a procurement process;
- (b) The PR was not completing the Price and Quality Reporting (PQR) as required in the grant agreement. The LFA was responsible for confirming that the PQR was completed and for verifying the accuracy of purchase data entered by the PR on sample basis; and
- (c) Most procurements were not supported with proper documentation. The missing documentation included purchase requisitions, requests for quotations, bid comparative analyses, purchase orders, contracts, good received notes etc. There was no evidence of receipt of goods for expenditure worth US\$ 62,788 (LKR 7,193,051).

Recommendation 13 (Significant)

The procurement related conditions in the grant agreement should be complied with. Specifically:

- (a) The PR should ensure that the Global Fund has approved the PSM plan prior to committing grant funds for procurement. The PR should ensure that the information furnished in the PSM plan is complete and accurate;*
- (b) Members of procurement related committees should disclose if they are conflicted before any procurement is undertaken;*
- (c) The PR should record all procurement related information in the PQR system. This information should be verified by the LFA; and*
- (d) Proper documentation should be maintained in support of all procurements;*
- (e) The PR should extend the extent of coverage of advertising for international bids.*

Storage and distribution

100. Each program had different storage and distribution arrangements for medicines, laboratory supplies and other goods. For Malaria, health products were kept in the central stores, with other items kept in a complex about 160km from Colombo. Some medicine was kept in an office at the AMC headquarters in Colombo but the OIG could not access the store because the storekeeper was not available.

101. Laboratory supplies were kept at the central laboratory at AMC headquarters. Non-health goods were stored and recorded separately. The TB program distributed pharmaceuticals from the Central Drugs Stores and laboratory supplies from the National TB Reference Laboratory. The drugs used for the HIV/AIDS program were kept and dispensed by two pharmacists in the stores-dispensary at the central HIV/AIDS clinic in Colombo. The laboratory items were kept by the NSACP central laboratory at the same location.

102. The AMC Main Stores comprised of three compounds, all three kilometers apart with 10 small stores in total. The buildings were being used for the storage of bed nets and insecticides, as well as spraying equipment. There was no light and water at the stores and there was no office. Store documentation was maintained at the storekeeper's house or at AMC headquarters in Colombo. Windows were broken and the stores were dusty. There was no pest control mechanism in place. The compounds were guarded by watchmen. Refurbishment was planned for 2011.

103. A review of inventory management process highlighted certain control weaknesses that weakened the environment within which the PR health products were received and distributed. An overall reconciliation was not performed to match total LLINs purchased, received, distributed and available in stock. Furthermore, the actual distribution of LLINs was not reconciled with the distribution plan prepared by the Anti-Malaria Campaign (AMC) at MOH&N. There were also no systems in place to undertake periodic stock takes of health products held in the stores.

104. The OIG was concerned that the AMS Main Stores staff did not get copies of the orders placed and could not verify if consignments received were in accordance with orders placed. The OIG attempted to reconcile the numbers but certain documentation was not readily available i.e. orders, receipts, storage and distribution. The balance of the nets received in 2007 i.e. some 2,034 according to the records bore the label "donated by WHO" and were still in the stores at the time of the audit. The nets were lying on the floor with most of them dirty and discolored.

105. Laboratory technicians were in charge of the stores and distribution for the TB lab supplies and the malaria lab supplies. In both cases the books were found in order, although in NTFL they were a few months behind. The stock in the NTFL stores could also not be easily be verified because it was not properly labeled. The TB and HIV/AIDS stock could easily be verified and the records were up to date. Copies of orders were available against which receipts could be verified. The stores were clean and neatly organized even in the temporarily store used for the TB drugs.

106. The OIG expressed concerns about the temperature in the temporary central TB drugs stores and in the District Chest Clinics e.g. the temperatures were 33 °C in DCC Anuradhapura. The Chief Pharmacist reported that in eight out of the 26 DCCs. Stores air conditioning was still lacking, but that provision had been made to rectify this. The director also asserted that air conditioning would be installed in the TB temporary store in April 2010.

107. Although the TB drugs in the chest clinic of Anuradhapura were close to the expiry date (May and August 2010) calculations showed that these batches will be used before the actual expiry date. For the lab items excess stock was observed at both central (up to four years of Methylene Blue reagent at the National TB Reference Laboratory NTRL, Colombo) and district (Chest Clinic Anuradhapura). The Consultant for the NTRL explained that measures were taken to address these problems, which would take effect over time. These measures include quarterly collection and monitoring of key data on use, stocks and orders placed both at user and central level and the OIG expects these measures to be sufficient.

108. The OIG visited the HIV and Central TB drugs stores and the National TB Reference laboratories and noted the following issues:

- (a) Separate stock records were not maintained for items funded by the Global Fund at the HIV drug store and National TB Reference Laboratory;
- (b) Stock records were not updated regularly at the National TB Reference laboratory. At the HIV drug store, issue of stock was consolidated and recorded in the stock ledger on a monthly basis;
- (c) There were no charts for monitoring the temperatures. During the OIG team field visit, the temperature was above the recommended maximum of 25 degrees for TB drugs;
- (d) A significant quantity (73 boxes) of highly flammable ethanol was stacked outside the store room at the National TB Reference Laboratory. No fire extinguishers were available at any of the storage facilities; and
- (e) The records did not keep track of slow moving stocks or stocks that run a risk of expiry.

Recommendation 14 (Significant)

- (a) After each net campaign, the PR should reconcile its stock of nets as a control over loss of nets.*
- (b) The PR should update its records on a timely basis. The PR should conduct periodic physical verification of stocks and should reconcile the physical stock to the records.*
- (c) Particular attention should be given to slow moving stock and stock expiry dates to ensure that the stock does not expire.*
- (d) The PR should ensure that warehouses are clean and dry and drugs are maintained within acceptable temperature limits (with air conditioning as appropriate). The PR should install fire extinguishers in all the stores.*

Rational use

109. In general, the use of drugs was in accordance with Standard Treatment Guidelines and the NEMLSL. The OIG visited some households in Anuradhapura district and noted that LLINs were in use. However, ITNs were more commonly used. Limited data on the use and accessibility of bed nets was available through different studies done.

110. One of the vehicles procured for AMC use in Anuradhapura district was not available for program activities but had since 2007 been used by the Regional

Director of Health Services and subsequently by the Provincial Director of Health Services.

Quality assurance

111. The CDD Authority cleared all the pharmaceuticals imported for the Global Fund supported programs, more specifically for the TB drugs procured by the GDF and the ARVs procured by SPC with assistance of the CHAI. Although it is correct to emphasize the need for these drugs to be registered, this may not be a priority because most of these drugs procured were WHO pre-qualified. The pharmacists of both programs assured the OIG that the registration process for drugs not registered was already underway.

112. The grant agreement requires PRs to test random samples of pharmaceutical products procured with Global Fund resources. The Global Fund quality control policy further states that samples should be taken along the whole supply management chain system and that these tests should be undertaken in a WHO recognized laboratory. There was no evidence that such tests were undertaken e.g. for ARVs and Tuberculosis drugs.

113. In 2005, a local textile manufacturer in Sri Lanka was awarded a contract to supply LLINs. The MOH Technical Evaluation Committee based this decision on a requirement in the tender document that stated that "*The netting material used for the production of nets should be obtained from a reputed net manufacturer, and should be netting material used for producing LLINs recommended by WHOPES for use in malaria prevention and control.*" The manufacturer declared in his bid that the materials used were Olyset® netting materials from Sumitomo, Japan.

114. In line with the tender documents that stated that "*The purchaser is required to engage an Independent Quality Assurance Laboratory to sample and inspect the finished nets...*", these nets were presented to the Sri Lanka Standards Institution (SLSI) for tests. The SLSI tests reported that the mesh size and dimensions were not compliant with the Olyset® standards. This procurement was not therefore in line with the Global Fund guidelines¹⁰ which require grant funds to only be used for procuring WHOPES approved LLINs. The CCM and the Global Fund were informed about this but there was no evidence that any action was undertaken by any of the parties. Other nets procured by Crown Agents in 2008 passed the quality assurance tests.

Recommendation 15 (Significant)

The Global Fund's quality assurance requirements should be complied with. Specifically samples should be taken along the whole supply management chain and tests undertaken in a WHO recognized laboratory.

¹⁰ GFATM, Guide to the Global Fund's Policies on Procurement and Supply Management, April 2004 and November 2009

Lanka Jatika Sarvodaya Shramadana Sangamaya

Background

115. Sarvodaya is the largest NGO in Sri Lanka and has been operational for almost 50 years. The Global Fund program was implemented by the Global Fund unit established within the Sarvodaya and headed by a Global Fund Project Director. Sarvodaya is a PR for Malaria Round 1, 4 and 8 and Tuberculosis Round 1 and 6. The total approved funding was US\$ 13.93 million with US\$ 8.15 million disbursed to the PR at the time of the audit.

Financial Management

116. There was an unreconciled difference between the financial records and the PU/DR submitted to the Global Fund amounting to US\$ 10,920. This amount had not been resolved at the time of the audit. According to Sarvodaya, the difference was due to exchange rate fluctuations, and subsequently they have made arrangements to reconcile this amount by passing necessary journal entries to the financial records.

117. A single bank account was used to keep grant funds for the Round 1 Malaria and Round 1 Tuberculosis grants. The commingling of donor funds without a proper supporting accounting system resulted in Global Fund resources being used to fund activities that were not related to specific programs supported. Funds amounting to US\$ 167,671 (LKR 16,562,477) from Round 1 Malaria were used for Round 1 Tuberculosis Grant and these funds were never repaid.

118. There were several inter grant transfers noted. There was no evidence of approval of these transfers by the Global Fund or the payment of the amounts transferred among the programs. This raised the risk that funds would not be available when needed to implement program activities. The OIG identified unapproved inter-grant transfers amounting to US\$ 91,935.27 (LKR 10,429,000) to the MOH&N and US\$ 45,518 (LKR 5,214,500) to the Anti-Malaria Campaign. These amounts should be refunded to the respective programs.

119. A review of the PR's banking and cash management revealed that bank reconciliations were not prepared for three out of seven operating banks selected for review. Bank payments were not always immediately recorded in the books of account with delays ranging from 7 to 34 days. There was no documentary evidence available of periodic physical verification of petty cash and blank check books.

Recommendation 16 (High priority)

- (a) *Reconciliations should be prepared between the financial records and the PU/DRs with any variances justified. The reconciliation should be verified by the LFA.*
- (b) *The PR should refund all inter grant borrowings i.e. the US\$ 167,671 lent to the TB program. The PR should also reimburse monies lent to other grants for non-program related work i.e. the US\$ 87,291 lent to the MOH&N and to AMC for US\$ 45,518.*

(c) *Bank reconciliations should be prepared for all bank accounts. Open items should be identified and resolved. A periodic physical verification of petty cash and blank check books should be performed and documented by a person independent of the cashier. All transactions must be recorded in the system immediately after a payment is effected.*

120. A review of grant expenses on a sample basis revealed the following:

- (a) The PR paid for travel and per diem expenses amounting to US\$ 3,871 (LKR 443,500) relating to MOH&N officials. This payment was made with the approval of the Fund Portfolio Manager although the activity was not program related.
- (b) There were expenses amounting to US\$ 729,849 that did not have supporting documentation.
- (c) The PR charged the Global Fund “rent” for storage of nets in its premises i.e. some US\$ 6,773 (LKR 776,000). The PR also paid its district coordinators LKR 50 per bed net as distribution charges. The PR could not justify the basis for these charges and there was no third party supporting documentation for the US\$ 57,600 charged to the program.
- (d) Grant funds were used to pay VAT amounting to US\$ 1,022 (LKR 117,126).
- (e) Payment vouchers and supporting documentation were not cancelled “PAID” and this exposed the program to the risk of double payment.

121. With regard to payroll expenses, the audit revealed:

- (a) A double charge of the management payroll to both the Sarvodaya PR and SR account amounting to US\$ 12,640 (LKR 1,447,950). This double charge was for four employees (Executive Director, General Secretary, Project Director and Finance Manager) was charged to both PR and Sarvodaya SR resulted in double charging of expenses to the Program; This amount should be recovered;
- (b) Payment of salaries at rates above those in the contracts for the Project Director and the Finance Manager amounting to US\$ 1,388 (LKR 159,000). The rate is in excess of salary as per appointment letter i.e. LKR 140,000 and 19,000 respectively; and
- (c) Charging of salaries pertaining to the period prior to the grant start date to the grant amounting to US\$ 3,690 (LKR 422,665). The PR did not obtain prior approval from the Global Fund as required.

122. The vehicle procured from grant funds was not registered in the PR’s name. It was registered in the name of WHO, which procured the vehicle on behalf of the PR.

Recommendation 17 (Significant)

- (a) *The PR should ensure that grant funds are used solely for the program purposes. Amounts paid to the MOH&N (US\$ 3,871) should be recovered.*
- (b) *The PR should provide justification for the basis for charging “rent” for storage and distribution charges to district coordinators. These charges should be reviewed by the LFA and if found to be unreasonable should be refunded.*

- (c) *The double charge for salaries amounting to US\$ 12,640, salary payments prior to grant signature amounting to US\$ 1,388, and excess salary paid (US\$ 3,690) should be recovered.*
- (d) *Controls should be instituted to ensure that all vehicles financed by the Global Fund are used for program related activities.*
- (e) *All payment vouchers and supporting documents should be stamped "paid" once the payments have been effected.*

Sub-recipients management

123. The PR had implemented most of the program activities through SRs. The OIG selected five SRs for review. SRs had been selected based on the recommendation of the Technical Evaluation Committee (TEC) during Round 1 and 4 Malaria. A review of process of awarding sub-grants revealed the following issues:

- (a) The PR did not have documented eligibility criteria for the selection of SRs;
- (b) There were no documented reasons provided for the rejection of potential SRs during the preliminary evaluation stage;
- (c) There were inconsistencies between the award decision and the actual institutions contracted. For example while the TEC rejected Sarvodaya's application to be an SR, a sub-grant agreement was signed; and
- (d) There was no documented evidence that the potential SRs were assessed prior to appointment for the Round 1 Phase 1 Tuberculosis and Malaria grants.

124. There was no system in place to ensure regular reporting from SRs in accordance with the SR agreement. i.e. the SRs did not submit the annual financial and programmatic progress reports to the PR as stipulated in the sub grant agreement. For example at the time of the audit, the Lions club had not submitted to the PR any programmatic and financial reports. There was no evidence seen of the PR following up these outstanding reports.

125. With regard to treasury management, Sarvodaya (SR) did not return unutilized grant funds amounting to US\$ 14,490 (LKR 1,659,974) after the close out of the Round 1 Malaria Grant. Separate bank accounts for sub-grant funds were not opened by some SRs namely the University of Colombo, University of Kelaniya, University of Peradeniya and Sri Lanka Medical Association as required in the sub grant agreement.

126. The OIG was not provided with supporting documents for expenditure worth US\$ 729,849 that had been incurred by three SRs namely Janasetha Shana Foundation (JSSF), International Association of Lions local affiliate club (Lions) and Sarvodaya SR.

Recommendation 18 (Significant)

- (a) *The process for the selection of SRs should be clearly stipulated. The process should be undertaken in line with laid down policy and clearly documented. Decisions to appoint SRs should be made after capacity to implement is assessed. All SRs should comply with the sub grant agreements e.g. maintenance of separate bank accounts.*

- (b) *The PR should strengthen the existing SR monitoring system for effective monitoring of SR performance. All outstanding reports and accountabilities should be followed up. All expenses without adequate supporting documents should be reimbursed by the PR.*
- (c) *The PR should refund the unutilized US\$ 14,490 balance that remained outstanding at the end of the Round 1 grant.*

Sarvodaya as an SR

127. The control environment within which the financial transactions were incurred for of Sarvodaya as a PR and as an SR was the same. Therefore the control weaknesses identified for Sarvodaya as a PR were also applicable to it as an SR. In addition to this, the following issues were noted.

128. The PR had not made a provision in the approved SR budget for HR and administration expenses. Sarvodaya (SR) modified the sub-grant budget to cover these costs without obtaining a formal approval from the PR. The SR reallocated 10% of the total budget of Round 6 Tuberculosis i.e. US\$ 34,304 to HR and administration expenses. According to Sarvodaya, this was due to the absence of a separate budget for administration of SRs up to Round 6.

129. At the time of the audit, program advances to three district centres amounting to US\$ 3,098 (LKR 355,000) had been outstanding for more than two years. Additional advances had been given to these centers despite their failure to account for earlier advances.

130. The bank reconciliation for the SR Round 1 bank account revealed that there was an unresolved difference (US\$ 11,119) between the bank statement i.e. US\$ 2,021,990 and financial records i.e. US\$ 2,010,871. The OIG also noted that there were delays in recording payments that were reflected in the bank statement as payments but were only recorded in the books of account up to 22 days later.

131. The OIG's review of the Sarvodaya (SR)'s purchases revealed that:

- (a) Some purchases undertaken that were not budgeted for US\$6,466 (LKR 740,788);
- (b) The documentation relating to the goods and services purchased was inadequate. Typical procurement related documents were not available e.g. purchase requisitions, request for quotations, vendor quotations, bid comparative analyses, purchase orders, contracts, evidence of receipt of goods/services;
- (c) Some purchases were not supported with appropriate supporting documentation e.g. evidence of the receipt of goods and invoices. These amounted to US\$ 7,900 (LKR 905,000); and
- (d) Appropriate procurement processes as stipulated by the GOSL were not followed e.g. 5000 booklets worth US\$ 9,864 (LKR 1,130,000) were procured through the sole source method and there was no justification provided for the sole sourcing.

International Association of Lions club

132. The OIG visited the local affiliate of the International Association of Lions club and noted that grant funds were invested in fixed term deposits which is contrary to the grant agreement signed with the Global Fund. The funds for the Round 1 and 4 Malaria grants were commingled on one bank account. Proper books of account were not maintained to separate the fund balances by grant. Other control weaknesses noted over cash management were the lack of evidence of periodic physical verifications of petty cash and blank checks were kept in an unlocked cabinet.

133. The OIG reviewed a sample of expenditure and noted the following:

- (a) The contract for the distribution of 72,500 bed nets worth US\$ 27,933 (LKR 3,200,000) was awarded without following proper tendering procedures. The SR had obtained three quotations which included a quotation from a company owned by the Project Director. The Project Director did not disclose that he was conflicted in this purchase transaction;
- (b) Grant funds were also used to pay for taxes on goods and services purchased amounting to US\$ 3,737 (LKR 428,067);
- (c) Payment vouchers and supporting documentation were not cancelled "PAID" in order to reduce the risk of double payment; and
- (d) Program advances were not followed up. One instance was noted where the an advance was settled over two years after it was taken.

Recommendation 19 (Significant)

The SRs should strengthen the internal controls within which program activities are implemented. Specifically:

- (a) *The unreconciled balances in the bank reconciliations should be investigated and resolved.*
- (b) *All significant budget reallocations should be with the PR's prior approval.*
- (c) *All outstanding advances should be accounted for or recovered from the relevant entities.*
- (d) *A periodic physical verification of petty cash and blank check books should be performed by a person independent of the cashier.*
- (e) *All procurements should be undertaken in accordance with the GOSL procurement law.*
- (f) *The SRs should award contracts in a transparent and competitive manner. Appropriate documentation should be maintained for every purchase made using grant funds.*

Procurement and inventory management

Policy and management

134. At the time of the audit, Sarvodaya had procured goods valued at approximately US\$ 1.9 million and this related mainly to bed nets and non-health products. Sarvodaya was required to follow the same practices as governmental organizations when using public funds i.e. the Global Fund policies and GOSL procurement guidelines were applicable. The OIG noted that Sarvodaya did not have

appropriately qualified staff to undertake procurement in accordance with the GOSL law.

135. In its PSM Plans Sarvodaya referred to its accounting manual as procurement guidelines. These procurement guidelines needed to be amended to align them to the GOSL procurement guidelines and best practices.

136. In 2003-4, Sarvodaya procured a vehicle and bed nets through WHO. This was on the understanding that this arrangement would result in better technical specifications, price, as well as exemption of taxes. However, WHO procurement services turned out to be inefficient with delivery occurring six to eight months later. The PR also procured 182,250 bed nets through WHO amounting to US\$ 1,036,000.

137. Contrary to what was stated in the PSM Plan the OIG did not find a comprehensive Management Information System (MIS) that could provide a consolidated overview of the stock and ordering status of the goods or monitoring progress of implementation against PSM Plans.

Recommendation 20 (Significant)

The PSM management function should be strengthened by appointing appropriately qualified staff to the procurement function; and developing and implementing standardized procurement manuals for the PR in line with GOSL regulations and Global Fund policies.

Procurement

138. The grant agreement stipulates the conditions relating to contracts for goods and services, purchase of pharmaceutical and other health products that the PR is obliged to comply with. The OIG noted that Sarvodaya did not complete the PQR as required in the grant agreement. The LFA was responsible for ensuring that the PQR was completed and verifying the accuracy of purchase data entered by the PR on a sample basis.

139. A review of the procurements showed that:

- (a) Most procurements were not supported with proper documentation. The missing documentation included purchase requisitions, requests for quotations, bid comparative analyses, purchase orders, contracts, goods received notes etc.;
- (b) Purchase orders did not contain the necessary details such as delivery period, payment terms, credit period, and delivery location;
- (c) Tender advertisements were restricted to the local papers. The use of international press and websites with wider supplier networks, such as UN Business Development (www.devbusiness.com), devex (www.devex.com) or dgMarket (www.dgmarket.com) in order to capture a greater audience was not considered.

140. Sarvodaya procured 8,325 bed nets from a local manufacturer in 2004. The purchase of nets from the local supplier contravened the Global Fund guidelines¹¹ which state that “Grant funds may only be used to procure long-lasting insecticidal nets that are recommended for use by the WHOPEs”. The price paid i.e. US\$ 14.42 was exorbitant and there was no justification provided for the high prices paid. These nets were tested and did not pass the quality assurance tests. VAT was also paid on this transaction. The OIG was also informed that the nets provided could not cover a family bed and so were deemed unfit for use by the families they were distributed to. This did not represent value for money.

Recommendation 21 (Significant)

The procurement related conditions in the grant agreement should be complied with. Specifically:

- (a) The PR should only procure WHOPEs recommended LLINs in accordance with Global Fund policy;*
- (b) The PR should record all procurement related information on the PQR. This should be verified by the LFA;*
- (c) PR should maintain a purchase register to record all purchases made and keep detailed records indicating receipt and use of goods and services, the nature and extent of solicitations of prospective suppliers of goods and services acquired and the basis of award of contracts and orders; and*
- (d) Proper records should be maintained in support of all procurements.*

Storage and distribution

141. A review of inventory management process highlighted certain control weaknesses within the environment in which implementation was being undertaken. An overall reconciliation was not performed to match total LLINs purchased, received, distributed and available in stock. There were no stock records at central level. The OIG reconciled the records for three districts and noted that out of the 30,000 bed nets distributed in three districts, supporting documents were not available for 2,094 bed nets.

142. A review of the PR’s existing process for inventory management and distribution revealed that inventory records for bed nets were not maintained. There was no process in place to compare actual distribution against the plan. In consequence, this PR distributed nets to districts that were not in the initial plan.

Recommendation 22 (Significant)

The PR should maintain proper inventory records to track receipt and issue of bed nets. A process for periodic physical verification of inventory, management reporting and reconciliation of bed nets procured, distributed and in-stock should be introduced.

¹¹ GFATM, Guide to the Global Fund’s Policies on Procurement and Supply Management, April 2004 and November 2009

Tropical Environmental Disease and Health Associates, Pvt. Ltd.

Background

143. TEDHA, a private sector organization, was established in 2004 with the vision of minimizing the incidence of communicable diseases in South Asia and South East Asia. TEDHA was instrumental in undertaking charitable relief related emergency health programs in the post tsunami Sri Lanka. While many of these projects are still underway TEDHA is now shifting its focus to more long term and sustainable development issues. TEDHA only became a PR in September 2009 for the Round 8 Malaria grant aimed at eliminating malaria in selected areas in Sri Lanka. It had an approved funding of US\$ 5.2 million and total funds disbursed at the time of the audit were US\$ 2.8 million.

Financial management

144. The OIG reviewed the banking procedures and noted that bank reconciliations were not prepared for the four Hatton National Bank accounts used by the district offices since the inception of the program. There were also unreconciled differences noted in the bank reconciliations amounting to US\$ 6,347 and US\$ 8,968 for the HSBC and HNB bank accounts respectively for the period ended 7 Feb 2010. There were also delays noted in the preparation of reconciliation statements thus delaying the identification of possible errors.

145. At the time of the audit, TEDHA had not notified the Global Fund as to who their auditors would be. This was contrary to the grant agreement that stipulated that the Global Fund Secretariat should be notified of the PR's independent auditors within three months of grant signature.

146. A loan was taken out to set up TEDHA. This was before TEDHA became a PR. The OIG noted that the interest from this loan was charged to the program. The charge of this interest was with the approval of the Fund Portfolio Manager.

147. A review of the grant expenses on a sample basis revealed the following:

- (a) The program director's residence costs were charged to the grant amounting to US\$ 3,036 (LKR 347,804);
- (b) Payments made to consultants (including directors of the PR) exceeded the actual time worked with the extra payment amounting US\$ 10,917 (LKR 1,250,651);
- (c) Interest amounting to US\$ 524 was not credited to the program;
- (d) Contrary to the relevant policy, the project director received per diems and was also reimbursed for hotel costs in addition to per diems received. This resulted in an excess payment of US\$ 1,490;
- (e) Fees collected from the sale of tender documents amounting to US\$ 200 were not credited to the program;
- (f) Advances made to staff and vendors were sometimes expensed immediately on payment. These advances were not followed up for accountabilities;
- (g) There were expenditures incurred without proper supporting documentation. In other instances payments were effected without the appropriate authority;

- (h) Some expenses were recorded under an incorrect account code; and
- (i) Payment vouchers and supporting documentation were not cancelled "PAID" in order to mitigate the risk of double payment.

Recommendation 23 (Significant)

The PR should strengthen the internal controls within which the program activities are being implemented by:

- (a) *Preparing bank reconciliations for all bank accounts maintained. The unreconciled balances in the bank reconciliations should be investigated and resolved.*
- (b) *Maintaining appropriate supporting documentation to support all expenditure incurred. All ineligible expenses paid using grant funds should be refunded to the program:*
 - *Administrative expenses for Program Director's residence for US\$ 3, 036;*
 - *Overpayment to the consultants for US\$ 10,917;*
 - *Overpayment for travel expenses for US\$ 1,490;*
 - *Unrecorded fees collected from sale of tender documents for US\$ 200; and*
 - *Unrecorded interest amounting to US\$ 524.*
- (c) *Stamping all payment vouchers and supporting documents "paid" once payments have been effected.*

Procurement and inventory management

Policy and Management

148. At the time of the audit, procurement transactions worth approximately US\$ 0.9 million out of a budgeted US\$ 1.3 million procurement had taken place. This related to laboratory supplies and non-health products. TEDHA was obliged to follow the same practices as governmental organizations when using public funds and so the Global Fund and GOSL procurement guidelines and policies were applicable. TEDHA is commended for being the only PR with appropriately qualified procurement staff.

149. Contrary to what was stated in the PSM Plan OIG did not find a comprehensive Management Information System (MIS) that could provide a consolidated overview of the stock and ordering status of the goods in order to monitor progress of implementation against PSM Plans.

150. The OIG noted that the PR had combined its PSM manual with the PSM plan. The OIG advised the PR to make the necessary distinction between a PSM plan for a certain period (showing actual products and time lines) and the PSM manual that should be restricted to PSM related policies, strategies and procedures.

151. There was a delay noted in the approval of the PSM plan. This was caused by protracted discussion about prices for five laboratory items that were deemed too high by the LFA. The PR went ahead with the procurement process of the items without having received approval of the plan and without resolution of the contested prices. The OIG also noted that the PSM plan mentioned brand names instead of

listing the products that were required. This is contrary to best procurement in that it restricted competition.

Procurement

152. A review of a sample of expenses incurred during the grant period revealed:
- (a) Purchases that were not budgeted amounting to US\$ 8,183 (LKR 937,500);
 - (b) All purchases were inclusive of taxes i.e. grant funds were used to pay taxes;
 - (c) Purchases above the GOSL procurement threshold were not undertaken competitively;
 - (d) Procurement activities started before grant funds were available;
 - (e) The tender advertisements were restricted to the local papers. The use of international press and websites with wider supplier networks, such as UN Business Development (www.devbusiness.com), devex (www.devex.com) or dgMarket (www.dgmarket.com) in order to capture a greater audience was not considered; and
 - (f) Documentation relating to the procurement process, receipt and issue of goods and services was inadequate. The purchase order did not contain necessary details such as delivery period, payment terms, credit period, delivery location and penalty clauses in case of delayed delivery.

153. A project vehicle was purchased for US\$ 115,878 against the budgeted amount of US\$ 50,000. The overspending was adjusted by purchasing four reconditioned vehicles at half the budgeted price of new vehicles. The new vehicle was used exclusively by the Program Director and not necessarily for program activities. The contract was awarded to the third financial bidder and so was purchased at 43% higher than the lowest evaluated bid. The vehicles were not registered in the name of the PR but by an NGO linked to the TEDHA group.

154. The second hand vehicles were procured with the consent of the Global Fund Secretariat with the justification that these vehicles are sturdy enough to outlive the program life of five years. This was despite having budgeted for brand new vehicles. Purchase of second hand cars should be discouraged because (i) it is difficult to ensure value for money, (ii) these cars do not come with a guarantee and (iii) often may result in higher vehicle running costs.

Inventory management

155. The OIG visited the inventory stores in Colombo from which health products are dispatched to the field offices and noted that proper records of receipts and issues of inventory items were not maintained. The PR did not record details of receipt and issue of material in the inventory register.

Recommendation 24 (Requires attention)

TEDHA should strengthen PSM related controls. Specifically,

- (a) *The PR should ensure that the Global Fund has approved the PSM plan prior to use of grant funds for the procurement. Procurements should only start once funds are received;*

- (b) TEDHA should use generic descriptions for products and not mention specific brand names in the bids;*
- (c) The PR should record details of all receipts and issues in the inventory register and it should be updated in a timely manner. The PR should conduct a periodic physical verification of inventory and reconcile the results of verification with the inventory records. Variances noted during the reconciliation should be investigated and resolved;*
- (d) Proper documentation should be maintained in support of all procurements; and*
- (e) The PR should broaden the coverage of advertising for international bids.*

Service Delivery, Monitoring and Reporting

Introduction - situational analysis

156. HIV/AIDS and malaria are in terms of absolute numbers (i.e. prevalence and incidence) low. This rosy picture should not, however, give an impression that vigilance is not required. In fact, there is a challenge in driving the programs to make further gains, and also doing this in a way that is sustainable. There is also a need to guard against re-occurrence. For example malaria in the early 1960s was near eradication status in Sri Lanka i.e. with only 17 cases detected in the whole country. The epidemic returned once vigilance and resources slackened.¹²

157. The national strategies for the three Global Fund-supported programs reflect both the low prevalence (incidence) and the wish either to maintain this situation (HIV) or to further reduce incidence (TB) or to even opt for elimination (malaria). The strategies for malaria and TB are comprehensive and unequivocal in this respect. The HIV/AIDS strategy is reflected in the Round 9 HIV proposal and has a strong focus on Most-at-risk-populations (MARPs). It is an update of the more generic National HIV/AIDS Strategic Plan 2007-2011.¹³

158. Characteristic of Sri Lanka's successful approach to health care is the principle of evidence-based strategizing. The country is continuously searching for cost-effectiveness and only introduces new routines if they are reasonably priced. A good example is the decision taken on antenatal HIV testing. In 2008 and 2009 pregnant women in three centres were tested resulting in five sero-positive cases (0.02%). The total number of HIV positive pregnant women in the country was then estimated to be less than 100. Based on these data and in view of the cost of testing, a decision was made not to introduce routine antenatal HIV testing.

159. Sri Lanka's pragmatic approach to health care is also evident in the embedding of TB and HIV/AIDS in the institutions. TB care and prevention is integrated in the country's 26 chest clinics while HIV/AIDS falls under the STD clinics. Both chest and STD clinics are part of an institutional framework with a national referral center and a presence in every district capital. Such institutional embedding to some extent guarantees that the two diseases, despite their low prevalence, remain on the mainstream agenda.

160. Government rules in Sri Lanka are particularly strict. Daily allowances, for example, have a set maximum of only LKR 400 (US\$ 3.50). This has resulted in difficulties in integrating the work done by SRs under the three programs in the public sector domain. Some activities have been allocated to Sarvodaya rather than to the MOH&N in order to circumvent such constraints and give more leeway.

161. Sri Lanka's public health service and its office-bearers are highly regarded. For example the OIG witnessed how householders readily accepted their houses

¹² Anti Malaria Campaign Strategic Sri Lanka, Plan for Elimination of Malaria 2008-2012, p.9

¹³ Ministry of Healthcare and Nutrition, National STD and AIDS Control Program National HIV/AIDS Strategic Plan 2007-2011. Colombo, Sri Lanka

being sprayed as part of the vector control program. However NGOs working in the health sector have struggled to claim their own niche as essential partners in the health sector. This lack of equity has been a characteristic of the relationship between the MOH&N and Sarvodaya and has affected the three programs, albeit in different ways.

Achievements and challenges

Achievements

162. A general observation is that, given low incidence and prevalence, output expressed in terms of numbers - for example of cases detected and treated - does not capture and reflect the efforts of achieving programmatic success. This applies to all three diseases. At the output/outcome level programmatic success is best expressed in terms of 'smart approaches' which maintain both interest and competence at the level of the services and awareness amongst the population. If one can be assured that such approaches are working and thus: that few cases are missed, impact is self-evident in terms of a sustained decrease in prevalence and incidence.

163. 'Smart approaches' are evident in the country's move towards malaria elimination. Success can be noted in decreasing numbers of new cases, particularly for areas that are malaria-prone.¹⁴ A package of case detection and control measures focusing on rapid and effective response to identified cases has been put in place. This is through applying a mix of passive, active and activated passive case detection (APCD)¹⁵. Active case detection works through mobile clinics setting up camp and taking blood smears in at-risk areas. With APCD, blood smears are taken of fever cases reporting in clinics. This is a middle way between the costly active case detection and the conventional (passive) case detection. The large majority of cases were identified through APCD.

164. The case detection measures were applied throughout the country with special attention paid to crisis-affected areas. Through this a pattern of high risk groups became apparent. In 2009, the total number of microscopically confirmed malaria cases was 428 of which 371 (87%) were security personnel and the remaining 71 (13%) were civilians. The large majority (93%) of parasites identified were *P. vivax* and only 7% were *P. falciparum*.

165. The TB program has with Global Fund support registered success in one program objective i.e. access to effective diagnosis, treatment and cure. After the insurgency DOTS coverage has been extended to all 26 districts. However, the

¹⁴ Where there is active surveillance, with judgement as to who is at risk, impact is more precisely defined as the Annual Parasite Incidence (API) which is the number of malaria cases confirmed by microscopy detected per 1000 population during 1 year, and where population is identified as being 'at risk'.

¹⁵ APCD is part of surveillance activities in which malaria personnel are assigned to health institutions and collect blood slides from patients attending the institution. Slides may be collected only from fever cases, from specific age groups or from all patients, depending on instructions provided to the personnel assigned.

treatment success rate of new smear positive cases has fallen slightly, from 87% (2007 cohort), to 85% (2008 cohort).¹⁶

166. The HIV program is working towards sustaining the low HIV prevalence at 0.02%. The Round 9 grant funds are to be used to enhance the national discourse on priorities for HIV prevention, with emphasis going to Most-at-risk-populations (MARPs). There is a willingness to learn from past lessons and thus work with and through civil society and NGOs.

Challenges

167. The main challenge for all three programs lies in “the three Cs” i.e. coordination, complementarity and coherence. Specific challenges are having synergies among programs run by the three PRs; across PRs and their respective SRs; between the public and private sector; between the Global Fund programs and health systems strengthening (HSS); and between service providers and beneficiaries i.e. the interface between supply and demand.

Risks and opportunities in low prevalence situations

168. The risks identified in the Global Fund supported programs in Sri Lanka largely follow from the contextual factors identified in the situation analysis. Some risks, and opportunities to solve them, only became apparent after program approval, pointing to a need for programs to be amended in order to result in better value added.

Losing proficiency and thereby missing the correct diagnosis. In low prevalence situations a major risk is that medical and laboratory staff do not (or no longer) gain hands-on experience with a disease’s symptoms and diagnostic tests. The risk extends to the level of individual patients. For example the OIG met with an AIDS patient who after an extended series of outpatient consultations was finally admitted, with a CD4 white cell count as low as 5/ μ liter. The patient stated that the thought of HIV infection had not occurred to him.

169. *Lack of appreciation for the difficulties peculiar to low prevalence situations*¹⁷. One difficulty for proposal writers has been that of working with estimates that were inflated, possibly related to an ambition to depict a disease as serious enough to warrant the Global Fund’s support. Targets were then set unrealistically high. This was the case for MDR TB and for HIV/TB co-infection (Round 6 TB). Targets could not be met because the country did not have that number of patients.

170. *Underestimation of the complexity of achieving elimination—as in the case of malaria.* In an elimination campaign there is a sense of urgency. Not only do components of treatment and prevention come together; they must do so at high

¹⁶ <http://www.who.int/tb/country/data/profiles/en/index.html>

¹⁷ The above is of wider significance as was related by World Bank staff on what was described as failure of a HIV/AIDS project. Source: World Bank, Sri Lanka Country Assistance Strategy 2009-2012, pp 122 and 137

speed and in an integrated fashion. Every case of infection becomes an opportunity to break the transmission cycle and further reduce the parasite reservoir. Such campaigns call for a lot of judgment, on a case-by-case basis e.g. whether to use rapid detection tests in situations where microscopists are lacking, whether to proactively switch insecticides even if there is no evidence of resistance etcetera. The malaria program staff expressed concerns that there was not much useful guidance in the literature on how to maneuver the program through this stage.¹⁸

171. *Appropriateness of indicators:* As already stated, the typical indicators that are reported for typical Global Fund programs are less than optimal in low incidence situations. The challenge of identifying indicators that will capture elimination results in the current Global Fund monitoring formats is increasingly recognized.¹⁹ This is also acknowledged in the Anti-Malaria Campaign's (Draft) M&E Plan.²⁰ This Plan, however, appears to be on the right track where it has managed to include the notions of speed and responsiveness in its indicators. An example is the *Proportion of malaria cases investigated according to National Guidelines*, defined as 'the proportion of confirmed malaria cases investigated within two weeks of diagnosis'. This indicator is expressed as a proportion and thus depends on accurate information on the total number of malaria cases diagnosed - including those that are not investigated on time. This in itself can be expected to act as a prompt for health staff to remain alert. The new M&E Plan has addressed the issue of low numbers by having both numbers and proportions as indicators for output and outcome respectively.

Recommendation 25 (high)

- (a) *With the help of the appropriate technical agencies the Global Fund Secretariat should consider revisiting indicators for low prevalence, low number situations to ensure that they effectively capture program success. For all three diseases the time factor is an important issue between telling. This could be the time between onset of symptoms and start of treatment and/or it could be the time between diagnosis and investigation (as in the malaria example above). Preferably indicators should not only measure the performance of the health system, but should also give an indication of a population's awareness regarding the disease concerned. Both are critical. In the case of Sri Lanka it would require coordinated efforts between the PRs. Sri Lanka would be a suitable country for piloting this recommendation.*

- (b) *The Global Fund should consider amending its proposal formats to allow countries like Sri Lanka to elaborate in their proposals how additional support is crucial to the national strategy of control, or even elimination to the extent possible. The case of malaria elimination could then be made for what it is: a costly effort in the current time, which, if successful, saves lives and costs in*

¹⁸ Also see a recent article in the Lancet: Vol 376 November 6, 2010, page 1601.
<http://globalhealthcenter.umn.edu/documents/malaria-lancet2010-3.pdf>

¹⁹ See for example http://www.rollbackmalaria.org/toolbox/tool_MEtoolkit.html, Table 16, on page (also accessible through <http://www.theglobalfund.org>)

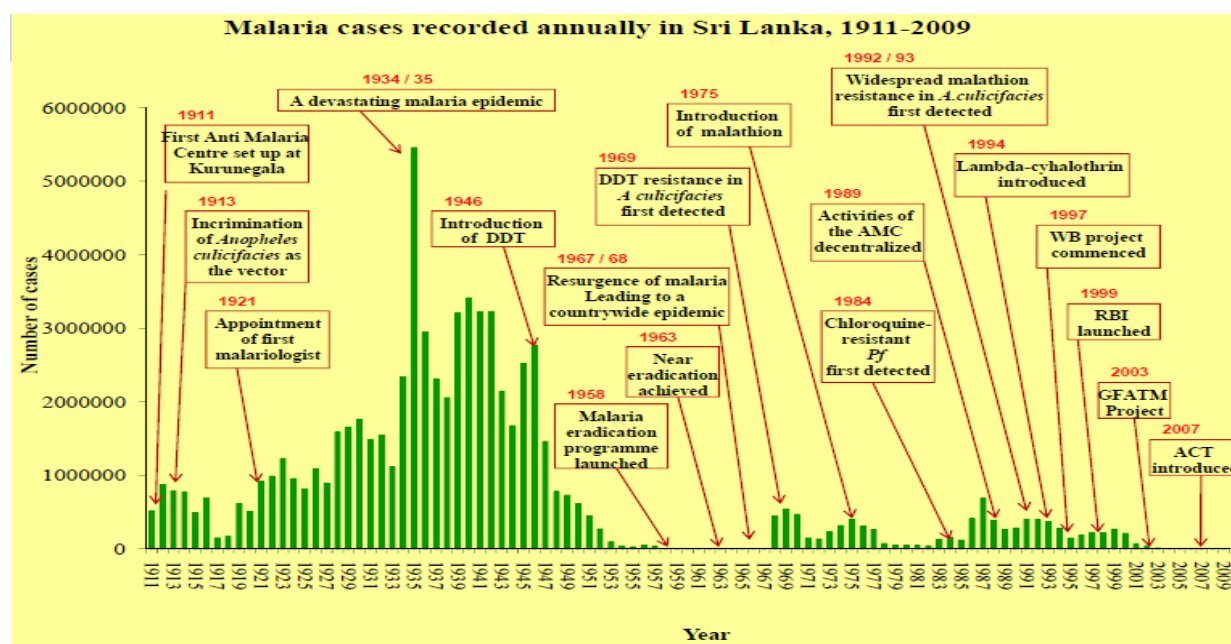
²⁰ National Malaria Control Program of Sri Lanka Monitoring and Evaluation Plan 2010-2014, DRAFT, undated

future. A similar case could be made for TB and HIV/AIDS control. In the opinion of the OIG this type of argument would in a country like Sri Lanka be more convincing than the somewhat far-fetched arguments of poverty and disease burden.

- (c) Similarly, the Global Fund Secretariat should encourage countries to provide a realistic portrayal of a disease's prevalence and incidence, coupled with a realistic portrayal of the interventions to be undertaken. Over-estimates of the disease burden risk setting unachievable targets and as in Sri Lanka with MDR TB and HIV/TB co-infection.

Malaria

172. Sri Lanka has previously experienced devastating malaria epidemics.²¹ Organized malaria control activities commenced as early as 1911 when the first Anti Malaria Campaign was set up. House spraying with DDT was introduced in 1946 while in 1953, in keeping with WHO recommendations, the Government launched a malaria eradication program. The country's profound experience in malaria control is widely acknowledged as are its more recent efforts, of elimination. For example, in 2010 the country hosted the second Asia Pacific Malaria Elimination Network (APMEN) with staff of the AMC presenting Sri Lanka as a case study.²²



Source: <http://apmen.org/storage/apmen-ii/02Galappaththy.pdf>, accessed April 2010

173. The objectives of the national malaria program are to²³:
- eliminate indigenous *P. falciparum* malaria by the year 2012;
 - eliminate indigenous *P. vivax* malaria by the year 2014; and

²¹ Anti Malaria Campaign Strategic Sri Lanka, Plan for Elimination of Malaria 2008-2012, p.9

²² : From November 2009 to March 2010, the Sri Lanka Anti Malaria Campaign, jointly with the Global Health Group of University of California, San Francisco (UCSF), initiated a case study on the success of malaria control in the country.

²³ <http://apmen.org/storage/apmen-ii/02Galappaththy.pdf>

(c) maintain zero mortality from malaria in Sri Lanka.

174. The same objectives featured in a more complex form in the R8 proposal to the Global Fund, which was the first malaria proposal that addressed the entire country. The complexity was due to the fact that at the time of submission the country was still in crisis. The objectives were thus specified according to the perceived feasibility of control vs. elimination at the time.²⁴

175. Throughout the three malaria proposals i.e. Rounds 1, 4 and 8, the language was adapted to the Global Fund's requirements, of addressing the vulnerable, the poor and pregnant women and under-fives. However, the main interest has been in the speedy detection of cases and through this, interrupting the transmission cycle. Apart from seeking to cure patients, patients thus serve as index cases with the aim of tracing and eliminating the vector. Rapid treatment has likewise become part of the prevention package, that is: to avoid infection of the vector, by the (infected) patient. The extent of the efforts and their coherence as a package is reflected in the monitoring forms i.e. 22 different parasitology forms, 8 vector control forms and 12 entomology forms.

176. Despite the different wording of their objectives, the three Global Fund grants have provided a continuum of support. They have concentrated on selected geographical areas where the Ministry lacked resources to do all that was necessary to move from control, to sustained control, to pre-elimination and finally elimination. This emphasis on continuity is clear in the AMC's monitoring formats and their summaries which essentially have remained the same throughout the rounds.²⁵ Changes have mostly consisted of decisions not to pursue interventions which proved insufficiently effort-effective, such as parasite surveys at schools, which generated too few cases.

177. The Global Fund enables the AMC to do all that is necessary, by supplementing in areas in which the Ministry is unwilling or unable to optimally provide. Good examples of the Global Fund added value are the continuity of allowances for a few days, at standard government rates, which enable field staff to spend more time in the field, on top of the days which the Ministry remunerates. Another example is the purchase of diagnostic kits and LLINs. Interviews and field visits convincingly demonstrated that the ambition of malaria elimination is in fact enabled by the Global Fund support. Without this support the AMC would lack the resources and the maneuvering room to entertain this ambition.

178. The country proposals are less clear about what happens beyond elimination. Yet this is important as elimination is only recognized when a country has been without new indigenous cases for a period of three years.²⁶ All current

²⁴ Namely as: (i) Elimination of *P. falciparum* malaria from non conflict districts and transitional districts and (ii) the elimination of *P. vivax* malaria from 75 percent of the above areas and (iii) the strengthening of malaria control in the conflict affected districts of Sri Lanka

²⁵ GFATM Malaria Control Project - Round 1, Round 4, Round 8 - Format for presentation at monthly review meetings of the Regional Malaria Officers (RMOs)

²⁶ <http://www.rollbackmalaria.org/gmap/2-3.html> : Elimination entails reducing to zero the incidence of locally acquired malaria infection in a specific geographic area as a result of deliberate efforts, with continued measures in place to prevent re-establishment of transmission. After three

efforts should be future-oriented. This is one of the reasons why the intervention of LLINs is considered so important. It extends protection over time, both for people who are at risk (Round 1 and 4), but also after elimination is achieved (Round 8 and beyond). The arrangement in Round 8 to have a third PR, TEDHA, should also be seen in this future light.

179. TEDHA's activities are restricted to four districts which have all suffered from the civil war. The idea is that TEDHA complements the surveillance activities of the Ministry in a way that has been specified for each district, and such that full coverage is attained. The Regional Malaria Officer (RMO) of Trincomalee District explained that, with TEDHA on board, case detection coverage will increase from 60% to 100%. TEDHA will do more than mere surveillance. It will, for example, also explore how the Ministry of Education can engage schools and their pupils in the practicalities of malaria elimination.

Recommendation 26 (Significant)

The program should consider aligning the objectives of the Round 8 grant to the national objectives as stated in the national malaria plan. Since the crisis has ended interventions can now be aligned to country-wide elimination of both P. falciparum and P. vivax. (The OIG noted that the new (draft) Monitoring and Evaluation Plan 2010-2014 has already done so.).

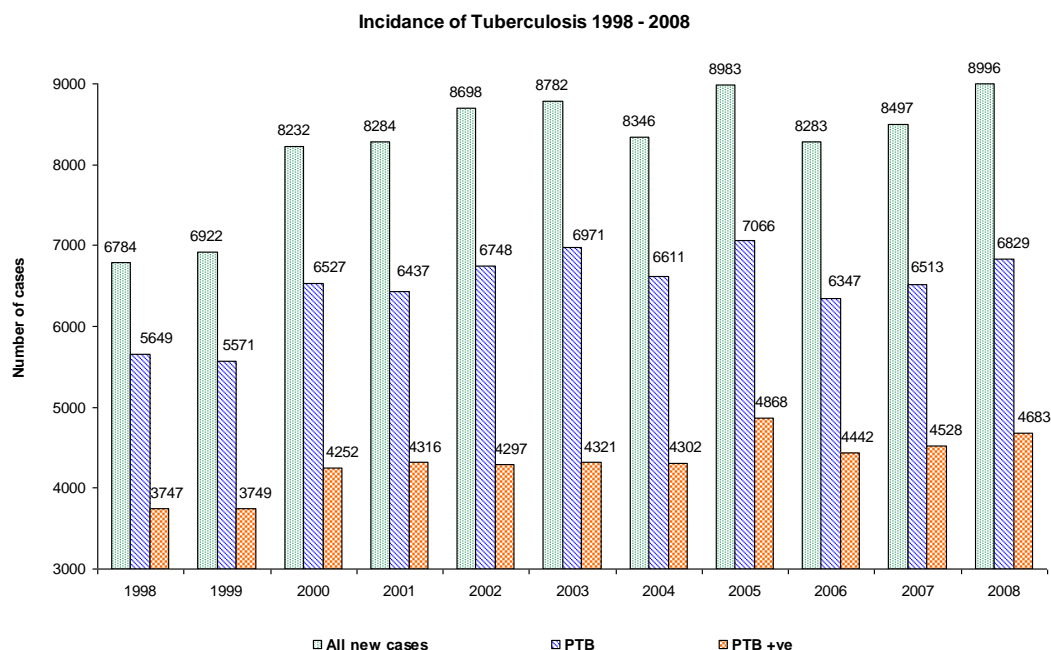
Tuberculosis

180. The stated purpose of the National Program for TB Control & Chest Diseases (NPTCCD) is a TB free Sri Lanka. However, a comparison of the key TB indicators over the last decade reveals that, although the results are excellent by international standards²⁷ a plateau has been reached which makes attainment of the goal of a TB free Sri Lanka difficult to achieve. Although historically successful, the TB control program risks loss of momentum as there is, unlike in the malaria program, no clear drive to effectively decrease TB incidence. Yet the achievement of widely accessible DOTS treatment is an outstanding example of civil society responsiveness which deserves more publicity.

181. The graph below illustrates that the number and proportion of sputum positive cases (PTB +ve) has since 1998 in fact slightly increased, although the upward trend may be partly explained by better case detection. Indeed case detection (86 percent - WHO 2009) and treatment success rate of new sputum positive cases (87 percent) have exceeded the WHO standards. However, although the failure rate was moderate (1.2 percent) the default rate has been on the high side (6.7 percent in 2008) with significant differences between districts. More recent data show that the trend has continued (WHO 2010): a continued 6% death rate and a 7% default rate could be an early indication of a systemic problem.

years in this state, countries can request malaria-free certification from WHO. Also see: [http://whqlibdoc.who.int/bulletin/1998/supplement2/bulletin_1998_76\(supp2\).pdf](http://whqlibdoc.who.int/bulletin/1998/supplement2/bulletin_1998_76(supp2).pdf)

²⁷ See for example the 2009 Mission Report of the Global Drug Facility (de Muyenck and Panadero, October 2009)



Source: NPTCCD, Annual Report 2008

182. The Global Fund support has concentrated on the NPTCCD’s first objective i.e. to ensure that every TB patient has access to effective diagnosis, treatment and cure. This has meant extension of access to DOTS and thus extension of the network of DOTS providers. It has also meant a renewed focus on the private sector, to achieve a single tuberculosis control program, implemented through all health care providers.

183. The responsibility of partnership with the NGOs and inclusion of the private sector has largely been in the hands of Sarvodaya. In practice Sarvodaya and its SRs have implemented these programs in close cooperation with the Government officials concerned. Government staff has, for example, routinely delivered training and advocacy sessions at meetings organized by Sarvodaya or one of its SRs. The OIG witnessed on several occasions that this arrangement has worked out to mutual satisfaction and has benefited the program. The OIG has insufficient information on the state of affairs after audit fieldwork when phase 2 of PR2 (Sarvodaya) had just been rejected.

184. The nature of the added value of the Global Fund support for TB control is comparable to what was described above for malaria control. The Global Fund has been instrumental in topping up resources in areas in which the Ministry has been unwilling or unable to optimally provide. Examples are supplementary supervision trips of district TB control officers and district lab technicians which have enabled greater coverage of TB services at sub-district level. With all the attention paid to DOTS, which can partly be attributed to the Global Fund support, the access to DOTS has improved as has the perception on the curability of TB.

185. Yet the TB program appears to have a lower sense of urgency than the Malaria program with less focus on success in terms of impact measures. Substantial resources and efforts have gone into awareness raising and advocacy, from

community level through school programs all the way up to decision makers. In the opinion of the OIG it would have been feasible and appropriate to include in the above the NPTCCD's second main objective which is to interrupt the transmission of TB. Just like in malaria control (see above) this would have meant a stronger focus not just on detection, but on *rapid* detection. The OIG did not see evidence that this crucial aspect of prevention was structurally addressed in any of the awareness raising programs.

186. The Global Fund support has contributed to a crucial long term benefit in improved quality assurance of laboratory diagnostics. A lot quality assurance (LQA) system has been designed and implemented where district level TB laboratories throughout the year re-assess a prescribed number of randomly taken sputum slides (both positive and negative) from facilities at sub-district level. The reference lab does the same for the 26 district level labs. The system not only identifies mal-performance but also works as an incentive for lab technicians to keep their skills and competence up. The district findings are reported in quarterly reports to the national level which reports are subsequently compiled in the annual report.

187. The TB program has been able, through the Global Fund support, to train and deploy contract staff for lab diagnostics so as to increase access to facilities with diagnostic competence. At the time of the audit, there were three types of lab technicians only one of which, the Medical Lab Technician (MLT), is multi-skilled and transferable skills. The MLT cadre is therefore going to be maintained and increased while the other two types of lab technicians will be phased out or simply laid off. In this sense and with the benefit of hindsight the Global Fund support would have been more strategic and supportive of the health system if the MLT cadre had been strengthened from the start.

Recommendation 27 (Significant)

The national TB program should consider strengthening its second main objective i.e. to interrupt the transmission of TB. Like in the malaria control program, this will involve increasing the program's focus on rapid detection. This important aspect of TB prevention can perhaps be included in existing awareness raising programs.

HIV/AIDS

188. Sri Lanka has thus far faced a low prevalence epidemic. It is not fully understood why this remains the case as high risk groups and high risk behaviors exist. By the end of March 2010, there were a cumulative total of 1,223 HIV positive cases reported, with 313 reported cases of AIDS and a total of 208 reported AIDS deaths. The annual number of reported HIV cases, though low, is slowly increasing and in 2009 stood at 137, the majority (102) of whom were men.²⁸ The NSACP and three other STD clinics (Colombo North, Colombo South, Kandy), and the Infectious Disease Hospital (IDH) provide ART. From 2004-2009, a cumulative total of 244 patients commenced ART. By the end of 2009, 196 adults and 11 children below 15 years were on ART with 37 patients having died while on treatment.

²⁸ <http://www.aidscontrol.gov.lk/me/PMIS/>

189. With regard to TB/HIV co-infection, a similar argument as the one discussed earlier, on antenatal HIV testing has been made. In March 2009, some TB physicians commenced provider initiated testing for HIV with a total of 943 tests undertaken and only one came out as positive. In addition HIV testing of all TB patients was carried out in the Badulla Chest Clinic, in 2008 and 2009 and from the total of 554 samples tested, none was positive. Based on these and other data, it was not considered to be cost-effective to undertake HIV/TB testing and therefore impractical to try and achieve the universal access target of offering HIV testing for at least 10% of high risk TB patients.

190. The country was relatively late in putting a proposal together for the Global Fund support. At the time, a World Bank project was expected to continue but this program was terminated. The proposal put forward for Round 6 was for domains not covered by the World Bank and this resulted in the limited congruence between the three components of the Round 6 HIV program:

- (a) Plantation workers and their families: Creating awareness and behavior change for safer sexual practices for the prevention of HIV transmission in the plantation sector in Sri Lanka
- (b) School children in ten districts: Creating awareness on the transmission and prevention of HIV/AIDS and behavior development among school children in 10 districts in Sri Lanka
- (c) Patients with HIV/AIDS: Scaling up provision of free Anti retro viral therapy to HIV patients in Sri Lanka.

191. When the World Bank project was prematurely terminated there was a concerted effort to safeguard the country's priorities and address the Most-at-risk-populations (MARPs) in the Round 9 proposal, which was approved in 2009. Progress on Round 6 has been disjointed which was amongst other things attributed to delays in appointing an SR for the estate program. In addition the appointed SR, Alliance Lanka, experienced difficulties in adapting to the Government rules in its awareness programs.

Recommendation 28 (Significant)

When the Round 6 and the upcoming 9 HIV grants are consolidated to ensure that monitoring of the combined program takes place in the context of a national monitoring plan. This should offer opportunities to address of the shortcomings in the Round 6 proposal including unrealistically high targets and suboptimal awareness raising approaches.²⁹

Health systems strengthening (HSS) - opportunities for strategizing by design

192. In all three programs there have been opportunities to make meaningful connections between the health system at large and the program concerned. Even though it is not recognized as such the laboratory quality assurance mentioned above

²⁹ Post-scriptum: the OIG has noted that in the consolidated grant some targets that in R6 proved unattainable have indeed been reduced.

under the TB program is a good example of this. However, in other cases such opportunities were overlooked.

193. Typically the Global Fund interventions and their monitoring focus has been on ‘numbers of individuals trained’ rather than on ‘institutions that are committed to adopt change and to act as multipliers’. Examples are plantation workers (HIV R6); teachers/school children (HIV R6, original design); microscopists trained (R1; R4; R6); private doctors reporting (TB; malaria). Taking the example of plantation workers (HIV R6) this project could have been designed more strategically by exploiting the private sector context, as argued below.

Private sector involvement: replication as a measure of success

The HIV/AIDS awareness program addresses the private sector in the tea and rubber plantations sector. The estate managers interviewed by the OIG support the program because it increases the workers’ productivity by reducing debilitating illness (HIV and STDs) and also counter-acts other destabilizing forces such as alcohol misuse and sexual violence in the estates. It also generates a stable and productive environment in which managers show they care for their workers.

The current project only addresses a small fraction of the total number of estates and in addition measures its success in the conventional way i.e. of numbers of people trained, within the selected estates. However, an alternative would be to emphasize this as a pilot, in a specific way which is feasible and appropriate given the institutional setting of the estates. As the individual estates that have been selected are part of far larger estate companies ‘success’ could be measured in terms of replication of the model beyond the targeted estates, to entire estate companies, or even from one company to another. Given the interest shown by estate managers in the current project, this approach can potentially have better results, at lower cost and with more likelihood of being self-sustaining. The role of the SR (Alliance Lanka) would then include what it takes for such peer-to-peer replication to happen and be sustained and what input is required to get such a program going.

194. The replication of a model after successful piloting is in fact happening in the HIV/AIDS schools program where, as it turns out, a pilot in one province will from 2012 go national as it will be incorporated in the national science curriculum.³⁰

Recommendation 29 (Requires attention)

The programs should be designed more strategically and include “out of the box” approaches that make use of existing institutional settings. An example would be to address individual estates as potential catalysts for adoption by entire estate companies and to do this by design in the initial planning, that is: from the outset. Replication at diminishing external cost should then be included as a (self-evident) indicator of long term success.³¹

³⁰ The original design of the school program was for ten districts and for fewer teachers per school. At the insistence of the Ministry of Education and based on earlier experiences the design was thoroughly changed. Source: Dr. Janaki Vidanapathirana, Consultant Community Physician, National STD/AIDS Control Program

³¹ Post-scriptum: The OIG has not seen evidence in the consolidated HIV grant (R6 and R9) that this opportunity has been utilized.

195. Another potential example of strategizing is the TB program. Both PRs and numerous SRs have made efforts to get the private sector involved in the program and to have private doctors act and report in conformity with the national TB program. This has been met with moderate success. Significantly private doctors cannot be forced to report. The private sector is a critical partner to the TB fight since an estimated 50% of TB related health services are provided through the private sector. The OIG noted that the following program can potentially help solve the problem.³²

Engagement of private labs as a way to engage the private sector; the case for external quality assurance as a unifier for the health system at large

Of 137 private labs assessed in 2007 only 24 (18%) fulfilled the minimum standard set by WHO for laboratories to maintain their skills, of twenty AFB slides per month. The majority (76, that is 55%) did only five or even fewer slides per month. The private labs stand to benefit if some form of external quality assurance (EQA) help them to profile themselves and handling at least the requirement. Minimum of slides could perhaps become part of the accreditation requirements. If the rules for private and public facilities would thus be aligned this would forge closer collaboration between the NPTCCD and the private laboratories which would in turn pave the way for regular notification of cases detected in private laboratories - not unlike the procedure adopted for HIV notification. EQA in private sector laboratories could make a substantial difference in achieving the objective of a single national TB program.

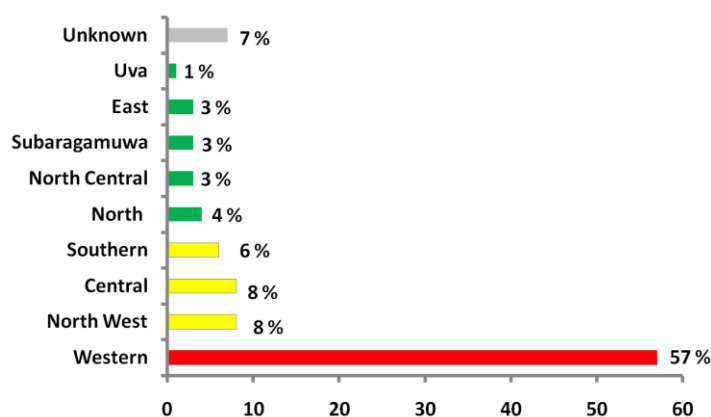
Source: Jennifer Perera, Professor of Microbiology, University of Colombo (SR under PR2 Sarvodaya)

196. The problem sketched above for the private sector is identical to the concern raised in the public sector where the combination of low TB prevalence and increased decentralization of diagnostic services has meant that staff see too few cases to maintain their proficiency. As expressed by the Head of the National TB Reference lab (Dr Priyanganie)³³: 'The work load distribution is not satisfactory and neither is the slide positivity rate; this raises concerns regarding maintenance of staff proficiency.' The similarity points to a one-for-all solution for both public and private labs i.e. to institutionalize external quality assurance such that it drives unity in the national program. The Box above illustrates this point.

197. Health Systems Strengthening should also seek opportunities for adding value to the health services by connecting a vertical disease program to the health system at large. In the Round 9 HIV proposal, the conceptual and practical linkages between HSS and the HIV proposal appear to be weak. The proposal consists of, firstly, a HIV/AIDS project for high risk groups (MARPS); and secondly, a HSS project specifically to rebuild health services ravaged by the war in the North. The diagram below shows the distribution of HIV across the nine provinces. The large majority of HIV cases occur in Western Province, which includes the capital Colombo, while only 4% are found in the North, where the HSS is proposed.

³² Based on discussions with Dr Jayanthi Priyanganie, Head, National TB Reference lab and Professor Jennifer Perera, Professor of Microbiology, University of Colombo (SR under Sarvodaya)

³³ Priyanganie, Dr Jayanthi, National TB Reference Laboratory, Abstract - An Audit on Microscopy Centres in Sri Lanka - 2007



Source: SIM Unit, National STD/AIDS Control Program 2010

Recommendation 30 (Significant)

Health Systems Strengthening (HSS) through the Global Fund support should aim for added value and efficiency in a specific way by being ‘a natural extension’ of the program concerned and not be a separate add-on as is the case with the Round 9 HIV/AIDS grant.³⁴ This recommendation is made also with a view to improving ‘value for money’ to which the Global Fund subscribes. In the specific case of Round 9 the GF country team will, for example, require engineering expertise. In Sri Lanka execution of the program will be disassociated from implementation of the HIV program. Similarly, the HSS component will not or only minimally contribute to the usual GF indicators of program achievement.

198. Most Global Fund grants provide for a research component. However this research has not been fed back into and does not inform the program implementation. An example is the extensive research on bed nets and their use. The results, though useful and of interest, have not helped to provide an answer to a question which to this day is left unanswered i.e. if LLINs should be conical, which seems to be the popular preference, or rather rectangular, which is cheaper and, in functional terms, is supposedly ‘just as good’. Another good research question would have been how the Global Fund support could prompt a shift to use of long-lasting impregnated nets, given that a high proportion of the population already prefers to sleep under a net.³⁵

Recommendation 31 (Significant)

For GF Rounds to have research components fulfill a practical requirement, of feeding into project implementation and particularly HSS. For dual and triple track rounds - as for R8 malaria - to do this in ways that feed the entire program, by using the specific strength of each PR (and promote cooperation between PRs). For R8, for example, to use the academic/ research profile of PR TEDHA to help answer research questions regarding sustained and yet affordable malaria (post-) elimination.

³⁴ The OIG did not find evidence of TRP comments or suggestions on this issue. The TRP comments to which the OIG had access stated merely that “The health systems funding request aims to rebuild and strengthen primary health care in an area that was severely affected by the conflict.”

³⁵ Numerous articles by staff of University of Colombo and University of Kelaniya - SRs in several TGF rounds

Role of NGOs: coherence and coordination between PRs and SRs

199. All three programs have been conceived along the lines of the respective national strategies. However, the design was tailored more towards the government PR and was not conducive for a disease-specific, complementary role for NGOs.

200. The history of Sarvodaya, the nature of its mainstream programs and its impressive village level presence all point to a high level of involvement with emotive issues such as poverty, inequality and human rights.³⁶ However, under the Global Fund-supported programs, Sarvodaya acts under instructions of the MOH&N. SRs were also allocated to Sarvodaya, which in earlier rounds had no say on who was appointed.³⁷ The dependence is also demonstrated in the list of indicators that were to a large extent only achievable in cooperation with the Ministry. There is no evidence that Sarvodaya has actively resisted being in this role. In fact, field staff praise the technical competence of the Ministry and appear to be happy to fit in.

201. In programs run by Sarvodaya and its SRs considerable efforts have been made to draw in the public i.e. schools, decision makers, community level etc. However, most if not all of the materials assessed by the OIG focused on knowledge (transmission and symptoms of the disease), with an emphasis on the seriousness of the disease. Given that the diseases are not or are no longer common this 'scare approach' has limitations. The OIG suggest that more innovative approaches should be considered, prompting the public and notably students to see themselves as having a role to play in a worthwhile goal such as malaria elimination.

202. NGOs and especially NGOs representing vulnerable groups need guidance to qualify and succeed as sub-recipients. One of the reasons given by World Bank staff for the termination of the World Bank's HIV project was because it was impossible to prompt the NGOs to live up to expectations.³⁸ The evidence is, however, that the three diseases, each for its own reasons, can only be successfully controlled with active engagement of the population.

203. The acknowledged strength of the public service has to some extent paralyzed or at least contributed to the less than optimal exploitation of the NGO potential. Ministry staff interviewed in the districts expressed their appreciation for the role of some NGOs, particularly those with a strong and consistent presence at community level. Ministry staff also acknowledged that there are certain niches where public services are at a disadvantage or at least would be better serviced in conjunction with organizations that have a more natural access to certain target

³⁶ <http://www.sarvodaya.org/>

³⁷ This trend is currently changing. For R8 malaria, for example, Sarvodaya itself does the interviews.

³⁸ 'With only an estimated 5000 people with HIV out of a population of 20 million, Sri Lanka still has one of the lowest prevalence rates of HIV in Asia (<0.025 percent). The challenge is to keep this rate low. [...] The Bank's support focuses on improving prevention efforts for highly vulnerable sub-populations and the general population; enhancing surveillance and M&E systems; reducing stigma and discrimination against people living with HIV and groups at highest risk; and addressing the synergy between tuberculosis and HIV. [...] Bank efforts have been stalled by poor implementation of the HIV project.' Source: World Bank, Sri Lanka Country Assistance Strategy 2009-2012, pp 122 and 137

groups. At the time of the OIG visit steps were being considered to give a more proactive role to NGOs under the Round 9 HIV grant.

Recommendation 32 (Significant)

- (a) *The three programs, especially TB, should consider encouraging programmatic coherence between the public and private sector. The awareness raising programs run in the communities should become more innovative i.e. moving the emphasis from controlling the diseases to increased responsiveness to diseases e.g. early case detection and treatment. The programs should shift their monitoring to the operational level rather than be limited to the current standard format of ‘numbers of participants attending sessions’. The above should moreover take shape such that the PRs and their SRs must coordinate in order to perform.*
- (b) *The CCM should ensure that there is good collaboration between the three programs and encourage programs that bring the various sectors together and which can only succeed when executed together. An example is the ‘MARPS’ mapping exercise in preparation of Round 9 HIV in which UNAIDS and WHO facilitated.*

Data collection: data quality assurance and reporting

204. There are a number of problems with the Global Fund’s current monitoring of the malaria program namely:

- (a) The malaria program’s routine monitoring formats go beyond the requirements of the Global Fund monitoring.
- (b) Some ‘targets’ in the Global Fund formats had already been achieved when the baseline was set and data are therefore not informative.³⁹
- (c) The challenge of capturing relevant behavior changes called for by the Global Fund support is not addressed.⁴⁰
- (d) Lastly, the current reporting format works from the now outdated objectives of the national program and thus still distinguishes between three types of areas (non-conflict, transitional and conflict) which make the format unnecessarily complex.

Case detection crucial to correctly interpret trends: the limitations of output targets

The critical aspects of urgency and judgment required in malaria elimination are not well articulated in the Global Fund reporting formats. This is partly because the reporting is against fixed targets. As an example, let us look at indicator 3.2 i.e.

³⁹ For example, one of the R8 impact indicators is the slide positivity rate: Percentage of slides or rapid diagnostic tests found positive among all slides and rapid diagnostic tests (non-conflict and transitional areas). The baseline in 2007 for *Plasmodium vivax* was 0.02 while the targets in yr 1-5 are set at a less ambitious percentage, of <0.1%.

⁴⁰ The very positive 2010 Data Quality Audit (DQA) for Malaria SRL-405-G05-M and SRL-405-G06-M by University Research Co., LLC notes that ‘One very encouraging finding was that most (>80 percent) households had more than one bed-net; the second bed-net had been purchased either before or after receipt of the free bed-net.’. The OIG notes that this cannot be ascribed to Global Fund programs.

number of *P. falciparum* cases treated with ACT. The OIG notes that, firstly, all *P. falciparum* cases are treated with ACT, as per the 2008 guidelines. Secondly in a malaria elimination campaign, one wants the total case load (expressed in numbers) to decrease as well as an increased case detection (expressed as a percentage) amongst those decreased numbers. The lower the number the better, provided one is assured of high and ideally total case detection. Conversely, a low number can be a bad sign if it implies that cases are not detected. This has been the concern for the conflict zones. A similar argument applies to numbers of mobile and vulnerable persons reached by the malaria mobile clinics for diagnosis and treatment (indicator 2.3) and numbers of mobile clinics (indicator 2.4). The relevant question here would have been if activities that were judged to be necessary were in fact executed.

205. Understandably the Global Fund Secretariat imposed a Condition Precedent (CP) that the PR must submit an 'Updated M&E Plan' based on a national monitoring and evaluation plan. At the time of the OIG visit the Malaria Program, with the assistance of an external consultant, was indeed designing an information system that would help provide meaningful information both for the national program and meet the reporting requirements of the Global Fund. The discussion on appropriateness of indicators in paragraph 168 refers.

Recommendation 33 (Requires attention)

The Global Fund Secretariat to support adaptation of a monitoring system that is future-oriented and that incorporates the lessons of the past, of resurgence of malaria after the goal had been almost reached.

206. For tuberculosis monitoring, the public sector monitoring system is comprehensive.⁴¹ The Global Fund-supported activities get special mention in the forms and are separately compiled and analyzed and yet they are part of the national system. Yet there are a number of problems with TB reporting. The LFA On-Site Data Verification report stated that for Round 6 TB *'The following indicators were excluded from the selection, as the PR had been unable to report performance against these indicators in the absence of the necessary mechanisms to gather, collate and compile information to measure these indicators.'*

- *Indicator 4: Number of non-NTP providers in the target area (such as clinics, hospitals, institutions etc.) participating in DOTs implementation*
- *Indicator 5: Number and percentage of Health administrative Districts that have implemented PPM strategy*
- *Indicator 8: Number of factories/ tea estates implementing DOTs at the work places*
- *Indicator 9: Number and percentage of districts reporting CTBC activities within the previous quarter'*

207. The TB reports from the District TB Control Officers to the National TB Program were erratic on the above indicators. In phase 1 of Round 6 it was indeed the second PR, the NGO Sarvodaya which was expected report on these. However, most of these areas were outside the ambit of Sarvodaya since they concerned the

⁴¹ <http://203.94.76.60/TBWeb/web/M&E.pdf>

public and the private sector. This is an example of issues that fell between the cracks, at least in terms of reporting.

208. The problem of underachievement of targets has in fact had different causes, which alone or in combination have affected especially the TB and HIV programs:

- (a) Unrealistically high performance targets set e.g. for condom use in the plantation sector under the Round 6 HIV grant;
- (b) Overestimation of prevalence/incidence in the proposals for MDR TB; HIV/TB co-infection. Because such cases are very rare, the targets could not be achieved;
- (c) Lack of relevant reports where service providers are not in the habit of reporting or where other reporting channels are used. Examples are (i) factories/ tea estates implementing DOTs in the work place; (ii) non-NTP providers participating in DOTS implementation; and (iii) private sector doctors not routinely reporting to public services.

Recommendation 34 (Requires attention)

- (a) *The PRs and the Global Fund should continue to consider the realism of the targets in the performance frameworks. The setting of indicators and targets should reflect what can be achieved and in what areas data can or cannot be accessed.*
- (b) *For TB, ideally, data collection itself should be part of a ‘smart solution’ as in TB Lot Quality Assurance.*
- (c) *Consideration should be given to the fact that some indicators reflect the combined efforts of the PRs and can therefore not be attributed to one or the other.⁴²*

⁴² Non-observance of this issue was a major reason for under-reporting by one PR (Sarvodaya) in R6 TB phase 1. Phase 2 of this grant was rejected for alleged underperformance of this PR.

Oversight

Background

209. As part of the Global Fund grant architecture, the Global Fund programs are overseen by a Country Coordinating Mechanism (CCM) established in each country. A Local Fund Agent (LFA) provides assurance on programs to the Global Fund Secretariat on the implementation of grant programs. These fiduciary arrangements place reliance on effective oversight arrangements. The entities responsible for oversight of Global Fund grant programs are:

- (a) Country Coordinating Mechanism (CCM);
- (b) Principal Recipients over Sub-recipients (SRs);
- (c) Local Fund Agent (LFA); and
- (d) Global Fund Secretariat.

Country Coordination Mechanism

210. The CCM is a country-level public-private partnership that:

- (a) coordinates the development of grant proposals to the Global Fund based on priority needs at the national level;
- (b) selects one or more appropriate organizations to act as the PR for the Global Fund grant;
- (c) monitors the implementation of activities under Global Fund approved programs, including approving major changes in implementation plans as necessary;
- (d) evaluates the performance of these programs, including that of PRs in implementing a program, and submits a request for continued funding prior to the end of the two years of initially approved financing from the Global Fund; and
- (e) ensures linkages and consistency between Global Fund assistance and other development and health assistance programs in support of national priorities.

Composition of the CCM

211. The Global Fund policy recommends that the membership of the CCM comprise at least 40% representation of the non-government sector such as NGOs/community based organizations, people living with the diseases, key affected populations, religious/faith-based organizations, private sector and academic institutions. The CCM Sri Lanka is comprised of 23 members with representation from the constituencies required by the Global Fund i.e. seven members (30%) from government, one member (4%) from academic/education sector, six members (26%) from NGOs and CBOs, three members (13%) from People Living with Diseases, one member (4%) from religious/faith-based organizations, four members (17%) from bilateral or multi-/bilateral development partners, and one (4%) from the private sector. In addition, there were six observers without voting rights.

212. The government is described as being dominant in CCM meetings. However this is probably because of the weak participation of the other members especially civil society. The participation of civil societies is inhibited by language barriers. The

attendance of meetings by the non-government constituencies at the CCM has been poor.

213. The CCM has held regular quarterly meetings and some ad-hoc meetings when needed. The attendance of meetings was low with the attendance being 40-50% on average and with most absences arising from non-governmental representation.

214. The OIG interviewed various CCM members during the audit and the common issues that affected CCM effectiveness were identified as:

- (a) inadequate non-government constituency participation during meetings;
- (b) the CCM Secretariat was not seen to be independent of the MOH&N;
- (c) some members were confused on what their role as CCM members was;
- (d) most of the oversight was focused on the MOH&N leaving the two NGO PRs without adequate oversight; and
- (e) members sometimes signed/approved documents, for examples documents submitted to the Global Fund for requesting CCM funding, without fully reading the relevant background documents.

215. A manual had been developed to guide CCM operations at the time of the audit. However, this manual was still in draft with some of the provisions contained therein inadequate to mitigate specific risks identified in the CCM or inadequate to provide guidance on how the CCM should operate e.g. the conflict of interest policy, composition and roles of the sub committees etc.

216. There were several instances of conflict of Interest noted with the Chairman being the PR; other PRs and SRs also sitting on the CCM and with the CCM Focal Point also being the Director of the Malaria Program. The CCM had documented a conflict of interest policy in its draft manual but there was no evidence that it had been operationalized at the time of the audit. There was no evidence that members were recused from participation at the CCM meetings where deliberations concerned their respective organizations.

Recommendation 35 (High priority)

The Sri Lanka CCM should:

- (a) implement the conflict of interest policy. Any conflict of interest should be declared by CCM members who should opt out of decision making where such conflicts arise;*
- (b) consider reviewing the current manual in order to strengthen it. The manual should be finalized and operationalized in order to guide the operations of the CCM. The manual should seek to address the causes of the low CCM attendance;*
- (c) consider rotating the chair among the different representative groups; and*
- (d) ensure that all CCM members understand the CCM role, responsibilities and governance tools. A program to train and strengthen the participation on non-governmental representatives on the CCM in order for them to have meaningful participation in the CCM meetings should be implemented.*

CCM Funding and Secretariat

217. The CCM has a secretariat and it performs its core functions relatively well. The CCM minutes of meetings were disseminated to the CCM members through electronic mail on time. The Secretariat, however, did not have signed CCM minutes as evidence that they had been approved by the CCM.

218. The CCM faced serious funding issues in the period under review. The OIG noted that in the absence of funding, the CCM received support from the MOH&N which can potentially impair the independence and objectivity with which it executed its roles. A review of the sustainability of the CCM Secretariat revealed the lack of an effective strategy to mobilize funds for the CCM. Development partners in most countries are usually interested in supporting the CCM but this and other sources of support require a clear plan to create an effective CCM Secretariat to attract sustainable funding.

Recommendation 36 (Requires attention)

The CCM Secretariat should ensure that minutes of meetings are signed and a copy maintained for the record. The CCM should in collaboration with the development partners develop a fundraising strategy for the CCM Secretariat. The CCM should not borrow program funds for its operations. All funds borrowed should be refunded.

Roles of the CCM

219. The CCM has been successful in securing funding from the Global Fund under Rounds 1, 4, 6, 8 and 9. The country has requested more than US\$ 100 million and has received commitments of US\$ 68 million. The OIG noted an improvement in proposal wiring processes in Round 9 with better engagement with civil society, the establishment of proposal committee, and a well-documented proposal process.

220. Within the audit period, the OIG observed that the CCM was sometimes involved in the operational activities which creates a conflict of interest. For example, the CCM was involved in the selection of SRs for Round 8, and the CCM was involved in undertaking procurements in 2005. Their involvement in the operations of the programs may impair the CCM's objectivity and independence and affect its ability to effectively undertake oversight.

221. Regarding the PR/SR selection processes, the CCM did not have documentation to evidence how the process was undertaken. For example the criteria against which PRs and SRs were selected was not well elaborated. The OIG noted that the committee that selected PRs included representatives from the proposed PRs thus raising a conflict of interest.

Recommendation 37 (High priority)

(a) The CCM should develop and communicate the process by which PRs are nominated to be PR. The selection criteria should be fixed and included in the governance manual. Proper documentation should be maintained to support the

process followed. The CCM should only guide PRs on the selection of SRs and should not be involved in the process.

- (b) *CCM oversight should be strengthened by formalizing the role of subcommittees in the draft of the CCM Governance manual. The composition of the CCM subcommittees should be reconsidered in order to increase the participation of non-government constituencies. PRs should report periodically to the CCM on program implementation.*

Local Fund Agent

222. PricewaterhouseCoopers (PwC) has been the LFA since the inception of the Global Fund grants in Sri Lanka. Over the years, PwC has increased its staff utilized on the Global Fund assignment i.e. from 6 in 2005 to 11 in 2009. This has resulted in a marked improvement in the quality of work undertaken by the LFA in recent years.

223. The LFA as ‘eyes and ears’ of the Global Fund plays a crucial part in the Global Fund’s system of oversight and risk management. The LFA’s key roles are to:

- (a) assess the key capacities and systems of PRs before grant signing and at other stages of grant implementation;
- (b) provide independent and continuous oversight through verification of implementation by grant recipients throughout the lifetime of a grant and to make recommendations to the Global Fund on disbursement amounts and adjustment to grant implementation arrangements;
- (c) carry out on-site data verification visits;
- (d) review the CCM Request for continued funding for Phase 2 of the grant and make a recommendation on funding for year three onwards of the grant;
- (e) provide country updates on key issues and events that impact grant implementation and pose risks to grant resources; and
- (f) carry out other services as requested by the Global Fund such as support for country visits by the Global Fund staff and consultants, grant consolidation and closeout.

224. The LFA has verified 122 progress updates/disbursement requests (PU/DRs), undertaken 18 assessments of PR capacity in M&E and PSM, produced two grant close out reports and reviewed six external audit reports.

225. While the LFA had assessed the PRs as having adequate internal controls and financial management systems, the OIG audit revealed that there were significant capacity gaps especially in financial management and PSM functions.

226. The OIG requested and was not provided with a risk assessment of Sri Lanka grants. The OIG could not confirm therefore that the work of the LFA was risk based and that the necessary oversight activities were undertaken by the LFA to safeguard the Global Fund resources in Sri Lanka. For example while procurement was considered a high risk area for the Sri Lanka program due to the fact that 70% of the grants are spent on procurement, this area has only been reviewed by the LFA in detail twice i.e. in 2005 and 2010. TEDHA was also not included in the coverage of the PSM specialist.

227. Other areas that the OIG noted that could have been handled better by the LFA are detailed below:

- (a) Some LFA tasks were not undertaken e.g. the LFA did not flag the failure by the PRs to complete the PQRs;
- (b) The analysis of expenditure against budget in the PU/DR where the LFA only compared the overall expenditure against the overall budget as opposed to undertaking a comparison by budget line;
- (c) Providing emphasis to procurements. The OIG audit showed that procurements undertaken were often not in line with the PSM plan and in some cases even against Global Fund policy;
- (d) Providing the Secretariat with relevant grant information including transactions or processes that appear irregular e.g. procurement of LLINs that were not WHOPES recommended, payment of unreasonable prices e.g. the procurement of LLINs at US\$ 14 per net;
- (e) Identifying areas of non-compliance to the grant agreement and flagging this to the Global Fund e.g. the investing of grant funds in fixed deposits;
- (f) Following up the implementation of prior recommendations and providing the Secretariat with status reports;
- (g) The LFA should verify balances to the books of account e.g. LFA cannot validate bank balances if bank reconciliations have not been prepared;
- (h) The LFA should follow due diligence to confirm the factual accuracy of the information that is provided to the Global Fund for decision making e.g. the fact that PRs had computerized MIS system for PSM activities, proper categorization and accumulation of the balances in the PU/DRs and EFRs etc.; and
- (i) The LFA should not be involved in the preparation of documentation by the PRs e.g. the LFA prepared the cash flow statement for the MOH&N.

Recommendation 38 (High priority)

The LFA should:

- (a) *take a proactive role in advising the Global Fund on the country risk profile to ensure an appropriate scope of work is developed through the Work Orders issued. Specifically the LFA should undertake progressive risk assessment of the grant operating environment and how they plan to respond to the assessed risks. This risk assessment report should be part of the deliverables to demonstrate the LFA understands and appreciates the country context.*
- (b) *take a proactive and risk based approach when mobilizing resources on Global Fund work. For example the LFA's work should incorporate more frequent pharmaceutical/PSM expertise reviews e.g. at least once a year or at least two weeks to cover all procurement and supply aspects that cut across the three disease programs.*

On-Site Data Verification (OSDV) assessments

228. The LFA has conscientiously executed its task of on-site data verification. However there were issues noted with the choice of sites which were not optimal on how and where OSDV would make a difference for the programs concerned. Western

Province and in particular Colombo district have the highest case load of TB and HIV/AIDS and also have the highest density of private health care institutions, but no OSDVs have been carried out in these areas. The LFA also did not go to the districts in the East and North yet these districts had large programs under implementation in the various rounds.

229. The LFA's OSDV strategy has been for each round to select a district and verify all indicators for that round. This procedure results in an overview of a package of indicators at the district level, but misses out on indicators that typically play out at central level, for example MDR TB. It also misses out the private sector, which is an important part of the TB strategy. The large majority of the private facilities—hospitals and labs notably—are in and around Colombo and yet these indicators have not been verified.

230. There is a good match between reported results and their verification by the LFA. The same was found 2010 Data Quality Audit (DQA) for Malaria SRL-405-G05-M and SRL-405-G06-M by University Research Co., which reported 'Based on the findings from the site and country visit and an overall assessment of data quality, the audit team found no data quality issues at the Ministry of Health and Sarvodaya locations in the DQA'.

231. The LFA repeatedly reported on the problem of unverifiable indicators (see above). However, staff of the Global Fund Secretariat told the OIG that they could not act on such remarks unless they were accompanied by a clear and feasible recommendation on actions the Secretariat should take.

Recommendation 39 (Significant)

- (a) *The LFA should consider the entire package of indicators in selecting OSDV sites. They should include under-performing sites as well as prevalence and incidence of the three diseases in selecting sites for OSDV.*
- (b) *The LFA should also not only assess the correctness of the figures reported, but understand the causes of under-performance and make recommendations for improvement. Such recommendations may include suggestions for improvements on the indicators themselves. This is relevant where it is evident that indicators can in practice not be measured, resulting in misrepresentation or non-representation of achievements.*

Role of development partners

232. Most of the development partners sat on the CCM members. The OIG observed that some development partners had played significant roles in supporting the Global Fund program implementation including strengthening the CCM.

233. The OIG noted that various development partners displayed considerable good will towards the Global Fund-supported programs and were committed to working with stakeholders to ensure the Global Fund achieved its goals. Some development partners were willing to provide input or collaboration especially

through the provision of technical support. The Secretariat should continue to nurture this good relationship.

The Global Fund Secretariat

234. The Global Fund Secretariat has played its role well in oversight of grant implementation. They have undertaken regular visits to the country and provided regular feedback.

235. The Secretariat communicated LFA recommendations to the country after various levels of review by the Global Fund Secretariat. However there was no mechanism in place to ensure that recommendations were tracked for implementation. This resulted in many recommendations remaining outstanding at the time of the audit. The Secretariat should establish a mechanism for following up recommendations from the LFA to ensure that these are implemented in a timely manner. This issue should feature in all mission reports.


236. The Global Fund Secretariat in its role in managing grants, provided regular approval on particular cases brought to its attention i.e. budget and PSM plan approval, etc. There were also other approvals provided that resulted in the programs contravening conditions stipulated in the grant agreement. There was no evidence in such cases that measures were put in place to mitigate any resultant risks. For example TEDHA was permitted to charge taxes to the grant, allow the funds from another grant to be used to fund a grant, charge interest from a loan taken to start up TEDHA to the program, etc.

237. The OIG also noted instances where the PR claimed to have received verbal approvals from the Secretariat, e.g., with regard to charging CCM costs to the grant funds; using grant funds for the payment of taxes; purchasing reconditioned vehicles instead of brand new vehicles, etc.

Recommendation 40 (Requires attention)

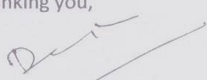
- (a) *The Secretariat should establish a mechanism for the tracking and following up recommendations arising from its missions and the LFA reviews.*
- (b) *All approvals should be in line with the grant agreement and where there are contraventions, appropriate authority should be obtained within the Secretariat, with appropriate measures taken to mitigate any risks that may arise. All Secretariat approvals should be in writing.*

Annex 1: The CCMSL Overall Comment on OIG Country Audit Report - Sri Lanka



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| <p>Chairman-CCM Dr. T.R.C. Ruberu Vice Chair-CCM Mr. Shirley Tissera Focal Point-CCM Dr. G.N.L. Galappaththy</p> <p>Members Ministry of Health DGHS Dr. Ajith Mendis Add. Secretary (MS) Dr. P. G. Mahipala Director-NPTCCD Dr. AKSB De Alwis Director-HIV/AIDS Dr. Nimal Edirisinghe Director-AMC Dr S. Deniyage</p> <p>WHO Representative Dr. F.R. Mehta UNICEF Dr. Moazzem Hossain UNAIDS Country Coordinator Mr. David Bridger World Bank Dr. S.S. Gopalan</p> <p>NGOs Sarvodaya Dr. Lalith Chandradasa Family Planning Association Mrs. Thushara Agus Alliance Lanka Mrs Swarna Kodagoda Sewa Lanka Foundation Ms. Kaushalya Navaratne Rural and Community Development Cooperation Mr. D. A D N C Wimalaratne Wason Foundation Mrs. W.A.M. Kusum Wasala</p> <p>Others Mr. S.K.D. Dassanayake Mr. B. Jayasiri Ms. W. Prasadika</p> | <p style="text-align: right;">22.09.2011</p> <p>Mr. John Parsons Inspector General Office of the Inspector General The Global Fund Chemin de Blandonnet 8 1214 Vernier Geneva Switzerland</p> <p>Dear Mr. Parsons,</p> <p style="text-align: center;">THE CCMSL OVERALL COMMENT ON OIG COUNTRY AUDIT REPORT - SRI LANKA</p> <p>The Country Coordinating Mechanism Sri Lanka (CCMSL) would like to thank the office of the Inspector General (OIG) and the team for country audit and for the constructive recommendations.</p> <p>The responses to the Audit Report GF-OIG-10-006 were collective effort of the Ministry of Health (PR1), Tropical Environmental Disease and Health Associates (Pvt) Ltd (PR2) and Lanka Jathika Sarvodaya Shramadana Sangamaya (PR3).</p> <p>The CCMSL have taken necessary actions to monitor the implementation of the agreed-upon audit recommendations of the respective PR's in related to following areas,</p> <ul style="list-style-type: none">• Program oversight• Financial management• Procurement and supply chain management• Sub recipient management• Inventory management <p>The CCMSL thanks the Office of the Inspector General for the completion of this report and is looking forward to a constructive engagement on matters raised in this report.</p> <p>Thanking you,</p> <div style="text-align: center;"> Dr. Ravindra Ruberu Chairman-CCMSL Secretary Ministry of Health "Sawasiripaya" 385, Rev. Baddegama Wimalawansa Mawatha, Colombo 09, Sri Lanka.</div> |
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Annex 2: Global Fund Secretariat Overall Comment on OIG Country Audit Report - Sri Lanka

18 October 2011

John Parsons
Inspector General
Office of the Inspector General
The Global Fund
Chemin de Blandonnet 8
1214 Vernier
Switzerland

Subject: Audit of Global Fund Grants to the Democratic Socialist Republic of Sri Lanka

The Secretariat would like to thank the office of the Inspector General (OIG) for its collaboration during the audit of 12 Global Fund grants in the Democratic Socialist Republic of Sri Lanka.

This letter provides a brief background to the Global Fund program in Sri Lanka and highlights key areas that need Secretariat's attention going forward.

The CCM and the PR, in close collaboration with partners and the Secretariat, have already started carrying out measures to mitigate key risks related to program oversight, financial and procurement and supply management. The Secretariat will continue to work closely with the Sri Lanka CCM and the LFA to monitor the implementation of the agreed-upon audit recommendations.

A. Contextual background

Since 2002, the Global Fund has significantly invested resources in the Democratic Socialist Republic of Sri Lanka to strengthen health systems and fight HIV/AIDS, tuberculosis and malaria. To date, Sri Lanka has submitted a total funding request for US\$ 102 million of which US\$ 59.8 million has been approved, and US\$ 33 million disbursed. The funding has complemented the national and international partners' support and helped achieve noteworthy results, among which as of 31 March 2011 were as follows:

- 170 people are on ART treatment
- 23,000 TB cases have been detected and treated
- 1,200,000 LLINs have been distributed since Round 1

- As of 15 October 2011, some 1.3 million LLINs have been procured under Round 8 funding and are currently being distributed to the beneficiaries.

B. Summary of key risks identified by OIG and actions to be taken by the Global Fund Secretariat

| Challenges and key risks noted by the OIG | Secretariat comments and measures to address the identified risks and challenges. |
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| A. Financial Management | |
| <p>Under financial management the OIG noted the following weaknesses.</p> <ul style="list-style-type: none"> a. Commingling of grant funds without an accounting system that could segregate the bank balances by donors. b. Using accounting software that lacked key checks and balances to ensure data integrity. c. Incurring expenditure that was not in the approved budget and work plans. d. Ineffective expenditure monitoring. e. Inter grant borrowing. | <p>The Secretariat takes note of the OIG’s recommendations in strengthening the financial management systems to address the identified weaknesses of the PRs.</p> <p>Since the debriefing by the OIG in February 2010, the CCM and the PR, in close collaboration with partners and the Secretariat, have taken measures,</p> <ul style="list-style-type: none"> • to ensure that all PRs have installed proper accounting software to record and report grant expenditures • to ensure proper approvals are provided in writing by the Global Fund or CCM for incurring expenditures outside the purview of the approved budgets and work plans; • to ensure that there are no scope for co-mingling or inter grant borrowing by PRs. • to ensure effective monitoring and reporting of grant expenditures, inter alia. <p>Similarly, the Secretariat has also taken measures to address some of the identified weaknesses as Condition precedents, special conditions and management actions under various ongoing or new grant agreements. Such conditions are reviewed during disbursement- decision making process.</p> <p>The CCM has endorsed the recommendations of the OIG and has submitted a Management Action Plan to address the weaknesses. The Secretariat believes</p> |

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| | <p>the action plan is sufficient to addresses the actions required by OIG report.</p> <p>As some of the remedial action plans proposed by the CCM requires specialized compliance review, the Secretariat shall engage the LFA services to carry out the compliance review of the PRs in addressing the recommendations of the OIG in a most efficient and effective manner. The Secretariat has already discussed this issue with the LFA and an appropriate TOR, in consultation with OIG, will be drafted to carry out the work.</p> |
| <p>B. Procurement and Supply Management</p> | |
| <p>The audit highlighted the following procurement and supply management gaps.</p> <ul style="list-style-type: none"> a. Lack of adequate documentation to support procurements b. Failure to complete the Price Quality Reporting mechanism | <p>In close collaboration with the CCM, PRs and the LFA, the Secretariat has taken suitable measures to ensure that procurement of all goods and services are carried out in compliance with the National Procurement Guidelines and policies. The Secretariat shall continue to emphasize the need to comply with the National Procurement Guidelines as a pre-requisite for disbursement of funds for non-health products to the Principal Recipients.</p> <p>Currently procurement of health products (Anti-TB Drugs) and LLINs is being conducted through Global Drug Facility (GDF) and Voluntary Pooled Procurement (VPP) mechanism respectively.</p> |
| <p>C. Strengthening the Role of Country Coordinating Mechanism</p> | |
| <p>OIG noted the need to strengthen governance and program oversight by:</p> <ul style="list-style-type: none"> a. Addressing conflict of | <p>The Secretariat takes note of the OIG’s recommendations in strengthening the role of CCM for oversight, governance and coordination.</p> |

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| <p>interest at the CCM level</p> <p>b. Define roles and responsibilities within the CCM, especially among the committees.</p> <p>c. Clearly outline the PR nomination process.</p> | <p>The Secretariat recently facilitated Technical Assistance (TA) from the Grant Management Solutions (GSM) with the aim of further strengthening the CCM governance, oversight, and functioning. A team of GSM consultants visited Sri Lanka in July-August 2011. The consultants have completed an initial two rounds of assessments and the third phase of intervention is in the pipeline. GSM has shared preliminary recommendations to further strengthen the role of CCM in accordance with the Revised CCM Guidelines 2011. The Secretariat has shared the recommendations emanating from GSM' report with the CCM Sri Lanka. The time-line provided for addressing the recommendation is 30 November 2011.</p> |
| <p>D. Recovery of the US\$ 2,647,156 million of ineligible and unsupported expenditure</p> | |
| <p>OIG provided a breakdown of unsupported and ineligible expenditures corresponding to each of the three Principal Recipients. amounting to US\$ 2,647,156. These ineligible expenditures were categorised as follows:</p> <p>a. Overspend over budget (US\$ 443,584)</p> <p>b. Expenses that are not program related (US\$ 81,604)</p> <p>c. Unsupported expenses (US\$ 982,030)</p> <p>d. Total Expenses charged prior to grant start date (US\$ 10,687)</p> <p>e. Total payment of Taxes and Duties out of grant funds (US\$ 198,608)</p> <p>f. Total interest receipt not credited to the grant</p> | <p>The Secretariat takes note of the proposed recoveries of ineligible and unsupported expenditures recommended by the OIG.</p> <p>The CCM has endorsed the recommendations of the OIG and has submitted a Management Action Plan and provided suitable response on the actions taken in the past and to be taken in the future to recover the ineligible expenditures under each of the categories highlighted by the OIG. This action plan has been received by OIG and accepted by OIG. However, it should be noted that ineligible expenses related to taxes may not be recovered since these are past taxes and the Government is not willing to reimburse the PRs. Tax exemption related policy will be implemented by the Government so that tax exemptions are provided to the PRs. This is under discussion with Govt of Sri Lanka. The inter grant transfer issues will be discussed within the Secretariat to find solutions especially for grants that have been closed. For ongoing grants, inter grant transfer issues will be reviewed by LFA to ensure full compliance.</p> |

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| <p>(US\$ 724)</p> <p>g. Charge to the Fund for use of own assets (US\$ 8,554)</p> <p>h. Inter-grant transfers (US\$ 921,365)</p> | <p>However, as the remedial actions taken or proposed by the CCM in this regard requires specialized compliance review, the Secretariat shall engage the LFA services to carry out the compliance review of the PRs in addressing the recommendations of the OIG. Periodic compliance review will be part of LFA work so that periodic updates can be sent to OIG on the status of compliance of recommended actions.</p> <p>The Secretariat will request OIG team to review LFA TOR for the compliance review so as to ensure that any disputed transactions are amicably settled</p> |
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| Recommendations | Response and Action | Responsible Official | Completion Date |
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| <p>Recommendation 25 (high)</p> <p>(a) With the help of the appropriate technical agencies the Global Fund Secretariat should consider revisiting indicators for low prevalence, low number situations to ensure that they effectively capture program success. For all three diseases the time factor is an important issue between telling. This could be the time between onset of symptoms and start of treatment and/or it could be the time between diagnosis and investigation (as in the malaria example above). Preferably indicators should not only measure the performance of the health system, but should also give an indication of populations ‘s awareness regarding the disease concerned. Both are critical. In the case of Sri Lanka it would require coordinated efforts between the PRs. Sri Lanka would be a suitable country for piloting this recommendation.</p> <p>(b) The Global Fund should consider amending its proposal formats to allow countries like Sri Lanka to elaborate in their proposals how additional support is crucial to the national strategy of control, or even elimination to the extent possible. The case of malaria elimination could then be made for what it is: a costly effort in the current time, which, if successful, saves lives and costs in future. A similar case could be made for TB and HIV/AIDS control. In the opinion of the OIG this type of argument would</p> | <p>The Secretariat takes note of the OIG’s recommendation and would like to mention that;</p> <p>a. The Global Fund Secretariat encourages countries to provide a realistic portrayal of the disease burden as well as a realistic package of interventions. It should be noted that country applicants prepare their proposals with technical support from technical partners including WHO and UNAIDS. Technical partners support countries in developing technically sound proposals. The purpose of the support is to ensure that the proposals are based on evidence, sound context analysis, effective strategies, and appropriate implementation arrangements, as well as to make sure that disease control strategies are in line with the overall health strategy. WHO also supports the development of sound national strategies as a basis for funding applications?</p> <p>b. The submitted proposals are screened by the proposal teams at the Secretariat against eligibility criteria. The Technical Review Panel (TRP) reviews the screened proposals and provides recommendations to the</p> | <p>Proposals Team</p> | <p>At the time of application process</p> |

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| <p>in a country like Sri Lanka be more convincing than the somewhat far-fetched arguments of poverty and disease burden.</p> <p>(c) Similarly, the Global Fund Secretariat should encourage countries to provide a realistic portrayal of a disease's prevalence and incidence, coupled with a realistic portrayal of the interventions to be undertaken. Over-estimates of the disease burden risk setting unachievable targets and as in Sri Lanka with MDR TB and HIV/TB co-infection.</p> | <p>Global Fund Board for funding approval. Upon approval of a grant application, the Secretariat engages with the Principal Recipients (PRs) in grant signing, to ensure all requirements for implementing the grant are viably negotiated.</p> <p>c. Sri Lanka last applied in Round 9 and the proposal form and guidelines have been revised and streamlined for Round 10 and quite substantially for Round 11. The proposal form and guidelines now require that applicants articulate a justification for the proposed interventions. In Section 3 of the proposal form, applications are required to (i) summarize the country's current strategies to respond to the disease on a comprehensive basis, addressing the national prevention, treatment, and care and support services; (ii) provide an assessment of the extent to which national, sub-national and community system constraints can limit/impact the demand for, and access to, comprehensive HIV, tuberculosis and/or malaria prevention, treatment and care and support services; (ii) provide detailed information on the population size data and epidemiological profile of target populations in the proposal;</p> | | |
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| | <p>and (iv) provide information on how the interventions prioritized in the proposal will address identified gaps in coverage for specific population groups. Section 3 is the basis for any justification of the interventions proposed in section 4 of the proposal form.</p> | | |
| <p><u>Recommendation 33 (Requires attention)</u></p> <p>The Global Fund Secretariat to support adaptation of a monitoring system that is future-oriented and that incorporates the lessons of the past, of resurgence of malaria after the goal had been almost reached.</p> <p>For tuberculosis monitoring, the public sector monitoring system is comprehensive. The Global Fund–supported activities get special mention in the forms and are separately compiled and analysed and yet they are part of the national system. Yet there are a number of problems with TB reporting. The LFA On-Site Data Verification report stated that for Round 6 TB „The following indicators were excluded from the selection, as the PR had been unable to report performance against these indicators in the absence of the necessary mechanisms to gather, collate and compile information to measure these indicators.</p> <ul style="list-style-type: none"> Indicator 4: Number of non-NTP providers in the target area (such as clinics, hospitals, institutions etc.) participating in DOTs implementation | <p>The Secretariat takes note of the OIG’s recommendations in and would like to highlight the following:</p> <ol style="list-style-type: none"> As a follow-up to the Global Fund 5-year evaluations, significant efforts have been initiated with the countries receiving Global Fund funding including Sri Lanka to address M&E-related weaknesses. The Secretariat places an emphasis on delivering a good balance across the output, outcome and impact level measurement. The selection and inclusion of indicators in the Performance Framework is largely guided by the Program life-cycle and the nature of interventions. The Performance Framework including monitoring systems for Round 8 Malaria Grants will be appropriately revised in Phase 2 grant agreement to suitably reflect the epidemiology situation in Sri Lanka. Currently the Phase 2 decision is pending Board’s approval. Similarly, the Secretariat is | <p>Country Programs and M&E Team</p> | <p>Subject to Board’s approval, the Phase 2 Grant Agreements will be signed by 31 December 2011.</p> <p>Round 6 TB (the PF indicators will be revised by 30 November 2011)</p> <p>Indicators for OSDV will be reviewed and carried out</p> |

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| <ul style="list-style-type: none"> • Indicator 5: Number and percentage of Health administrative Districts that have implemented PPM strategy • Indicator 8: Number of factories/ tea estates implementing DOTs at the work places • Indicator 9: Number and percentage of districts reporting CTBC activities within the previous quarter | <p>currently in the process of revising the PF indicators for Round 6 TB grant based on lessons learned. While the Round 6 grant will end in December 2012, the Secretariat shall ensure that any additional TB grant will address these issues at the time of grant negotiations.</p> <p>d) The Secretariat shall systematically review and approve the indicators prior to conducting on-site-data verification (OSDV) by the Local Fund Agent in future.</p> | | <p>annually.</p> |
| <p>Recommendation 40 (Requires attention)</p> <p>(a) The Secretariat should establish a mechanism for the tracking and following up recommendations arising from its missions and the LFA reviews.</p> <p>(b) All approvals should be in line with the grant agreement and where there are contraventions; appropriate authority should be obtained within the Secretariat, with appropriate measures taken to mitigate any risks that may arise. All Secretariat approvals should be in writing.</p> | <p>The Global Fund Secretariat takes note of the OIG's recommendations in this regard.</p> <p>(a) The Secretariat shall continually and systematically track the follow-up recommendations arising from in-country missions including the LFA reviews throughout the life-cycle of the program and particularly during disbursement decision making process.</p> <p>(b) Although no oral authorizations were made in the past, the Secretariat shall ensure that in future all approvals are made in line with the grant agreement and internal policies and procedures.</p> | <p>Country Programs</p> | <p>On a continuous basis</p> |

The Secretariat thanks the Office of the Inspector General (OIG) for its final report and looks forward to a constructive engagement on issues raised in this letter and during follow up on recommendations.

Sincerely

Mark Eldon-Edington

Director

Country Programs Cluster

Annex 3: Recommendations and Action Plan, August 2011

| Recommendation | Country Response and Action Plan | Responsible Person | Expected Completion Date | OIG Comments (where applicable) |
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| <p>Recommendation 1 (High priority)</p> <p><i>The PRs should comply with the conditions stipulated in the grant agreement. This will strengthen the control environment within which Global Fund programs are implemented. Specifically, the PRs should:</i></p> <p><i>(a) Ensure all CPs are met in a timely manner;</i></p> <p><i>(b) Comply with the reporting requirements of the Global Fund;</i></p> <p><i>(c) Strengthen their contracting with SRs;</i></p> <p><i>(d) Prepare the EFRs in accordance with the guidelines issued by the Global Fund;</i></p> <p><i>(e) Maintain grant funds in an interest bearing account to the extent practicable. All unutilized money should be held in cash at all times; and</i></p> <p><i>(f) Comply with the SR audit related conditions stipulated in the grant agreement.</i></p> | <p>PR1</p> <p>a,b,c) - Actions have been taken to adhere to the Global Fund requirement</p> <p>d) EFR is prepared based GF guidelines.MOH records net expenses (Advances-Receipts) in the EFR. Further LFA reviewed EFR's were sent to GF.</p> <p>e) Bank accounts are operating as per Treasury operations circular 5/2007.Which requests to open and operate to facilitate "Centrally managed single bank account system".</p> <p>To comply with Sri Lanka government regulation and necessity of program implementation in order to achieve its objectives, funds are operated in state commercial banks as per prevailing government policy.</p> <p>f) Even though audit plan was not shared with GF, regular audits were carried out with each advance settlements and identified finding were shared with SR (Eg. Alliance Lanka/IMPA).In addition SR has independent audit function. PR's auditor too carried out SR income and expenses audit as a part in the annual audit.</p> | Project Accountant | Completed | <p>For PR 2/TEDHA,</p> <p>The Secretariat to provide further guidance to TEDHA on their current practice to deposit the Grant Funds in re-purchases account. The Global Fund Legal Unit opinion may need to be obtained in this case.</p> |
| | | Project Director, Project Accountants | Completed | |
| | | Project Accountants | Completed | |
| | | Project Director, All PRs, Project Accountants | Completed and adhered | |
| | <p>PR2</p> <ul style="list-style-type: none"> • TEDHA operates a dedicated current account to receive and dispense grant funds from the GF. | Program Director and Financial | Completed | |
| | | | completed | |

Country Audit of the Global Fund Grants to the Democratic Socialist Republic of Sri Lanka

| Recommendation | Country Response and Action Plan | Responsible Person | Expected Completion Date | OIG Comments (where applicable) |
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| | <ul style="list-style-type: none"> • In was carefully considered by the management to place excess funds in safe deposits with the HSBC or a state owned bank • On one occasion a 3 month deposit was made with the National Savings Bank all other deposits were placed with the HSBC for periods of 1 month , ensuring sufficient liquid funds available for programmatic expenditure . • These liquid funds were placed in Daily Re-Purchase Account, where a minimal interest is earned. All funds now are in the Daily Re-Purchase account. • All interest earned is accounted to the grant. <p>In one instance a sum of \$524 referred to in the OIG’s report was inadvertently transferred to another account held by TEDHA. This amount has been transferred to the dedicated GF Fund account.</p> <p>Tropical and Environmental Diseases & Health Associates Pvt Ltd (TEDHA) awaits an early recommendation from the secretariat and guidance regarding repurchase accounts for speedy implementation.</p> <p>PR3 Actions for these recommendations are being implemented in current grants</p> | <p>Controller</p> <p>Director, TEDHA</p> <p>FM</p> | | |

Country Audit of the Global Fund Grants to the Democratic Socialist Republic of Sri Lanka

| Recommendation | Country Response and Action Plan | Responsible Person | Expected Completion Date | OIG Comments (where applicable) |
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| <p>Recommendation 2 (High priority)</p> <p><i>Global Fund resources should generally not be commingled with funds from other funding sources. In the event that this happens, proper books of account should be maintained and reconciliations prepared to show what Global Fund monies have been spent on and outstanding balances at any point in time.</i></p> | <p>PR1 Separate bank accounts and separate book of accounts were already opened and maintained to resolve the above issue. Inter grant transfer have been already settled.</p> <p>PR2 a. Since the feature is not available in Quick Books, the local agent has been commissioned to provide either and advanced version of a software with approval options. Since there are budget constraints, this will be included in the Phase 2 Budget Proposal b. Cheque numbers which are unique numbers for each transaction are serially automatically generated on entering the first number of a cheque book. c. The accountant who makes the entry cannot make any alteration and either the other accountant or Financial Controller is required to authorise any correction by passing a journal entry. d. The necessary restriction is now implemented e. The invoices were cancelled by placing a paid seal. This practice was implemented in April 2010.</p> <p>PR3</p> | <p>Project Accountants</p> <p>Program Director and Financial Controller</p> | <p>completed</p> <p>b) - e) Completed in April 2010</p> <p>a) will be completed in Quarter 1 of Phase 2</p> | |

| Recommendation | Country Response and Action Plan | Responsible Person | Expected Completion Date | OIG Comments (where applicable) |
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| | All the shortcomings of bank reconciliation, books of accounts have been addressed. | FM | completed | |
| <p>Recommendation 3 (High priority) (a) <i>The PR's financial management system should have appropriate checks and balances to ensure the integrity of financial data. The accounting software should be developed further i.e. by extending its functionality or alternatively consideration should be given to acquiring a new financial management system. Key success factors that need to be addressed by the financial management system include:</i></p> <ul style="list-style-type: none"> ▫ <i>Functionality i.e. the ability of the system to produce information in the form in which it is required and in a timely manner;</i> ▫ <i>Flexibility of the system i.e. the ability to modify the FMS to support its changing business practices;</i> ▫ <i>Internal control i.e. appropriate internal controls should be applied to all system inputs, processing, and outputs to ensure resource use is consistent with policies and reliable data is obtained, maintained, and disclosed in reports.</i> ▫ <i>Backup and security of financial data;</i> ▫ <i>Ability to carry out self-diagnostic checks for integrity etc.</i> <p>(b) <i>The PRs should consider establishing an accruals based accounting system to strengthen the existing financial</i></p> | <p>PR1 a) Account balances are checked on monthly basis to prevent further posting once an accounting period is closed off. Authority levels were created to access different modules to different to users. Cheque numbers are automatically generated through system. Backup and security of financial data and functionality are in place. b) Actions have been already taken.</p> | <p>Project accountants</p> <p>Project accountants</p> | <p>Completed</p> <p>completed</p> | <p>The selection of accounting basis is purely on PR Management Decision.</p> <p>The recommendation from OIG to use accrual basis is based on the 'good practice' following the recommendation from the IPSAS to improve internal control of Public Sector due to the weaknesses of cash basis of accounting that can easily neglect asset management, future liabilities, etc.</p> <p>In principle, both accounting basis can still accommodate the</p> |

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| Recommendation | Country Response and Action Plan | Responsible Person | Expected Completion Date | OIG Comments (where applicable) |
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| <p><i>management system. The system should incorporate the various essential features and controls required by different stakeholders to avoid the duplication of effort in recording and delivering reports.</i></p> | <p>PR2 a. As above new software is being evaluated b. We observe there are conflicting opinions expressed between cash based accounting and accrual based accounting methods. Our current understanding is that the Global Fund’s policy is more towards cash based accounting and preferred by LFA (Price water House, Colombo) as well. TEDHA as a whole prepares accrual based accounts for external audit and reports to its shareholders. We need a very clear policy from the Global Fund the basis to prepare any reports and statements for the Global Fund. B. TEDHA has corrected the budget input into the system soon after the OIG’s audit and since then the budgetary control system and variance analysis works efficiently. Significant variances are regularly investigated to ensure effective budgetary control over program funds. TEDHA could adopt an accrual policy or cash based accounting procedure whichever is approved policy of the Global Fund. Currently TEDHA is accounting on a cash basis which was recommended by the LFA and GF. TEDHA</p> | <p>Financial Controller</p> <p>Director, TEDHA</p> | <p>B) Completed</p> <p>A) Quarter 1 of Phase 2</p> | <p>GF reporting requirement i.e. PU/DR.</p> <p>-</p> |

Country Audit of the Global Fund Grants to the Democratic Socialist Republic of Sri Lanka

| Recommendation | Country Response and Action Plan | Responsible Person | Expected Completion Date | OIG Comments (where applicable) |
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| | <p>would appreciate a clear cut recommendation with relevant communication issued to The GF and LFA for a uniform policy.</p> <p>PR3 a) Accounting software has been further upgraded. However we are not in a position to procure the latest version (2011) due to financial constrains. b) At present the accounting system is based on cash basis as per instructions received from GF. We intend convert this in to accrual basis after consulting GF/LFA if possible.</p> | | | |
| <p>Recommendation 4 (Significant) (a) The PRs should strengthen their budgeting frameworks to ensure that only eligible expenditure as per grant agreement is incurred. Budgetary reallocations should be justified in writing and approved before expenditure is incurred. The detailed program budget should be input into the accounting software with payments only processed against specific budget line items. The PR should institute a process where budgets are compared to actual expenditure periodically with significant variances investigated and</p> | <p>PR1 a) Budgets are included in the accounting software. Periodical follow-ups and discussions with program staff are in place. b) With the recruitment of Human Resource Officer necessary segregation of duties in related to payroll in place and necessary actions were taken for development of job descriptions.</p> <p>PR2 a. TEDHA has corrected the budget input into the system soon after the OIG’s audit and since then the budgetary control system and variance analysis works efficiently.</p> | <p>Project Director, Project Accountants</p> <p>Financial Controller</p> | <p>completed</p> <p>Completed</p> | <p>-</p> |

| Recommendation | Country Response and Action Plan | Responsible Person | Expected Completion Date | OIG Comments (where applicable) |
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| <p><i>followed up.</i></p> <p><i>(a) Job descriptions should be developed for all staff to ensure that they are informed of their roles, responsibilities and authorities. To the extent possible, the PR should segregate the incompatible duties by reassigning current roles and responsibilities.</i></p> | <p>Significant variances are regularly investigated to ensure effective budgetary control over program funds.</p> <p>b. The PR has issued contract letters with job descriptions for each position accordingly</p> <p>PR3</p> <p>a) PR has taken action to strengthen the budgetary framework to ensure that only eligible expenses as per grant agreement is incurred. Where budgetary reallocations are to be done, it will be approved and justified in writing before the expenditure is incurred.</p> <ul style="list-style-type: none"> • Detailed programme budget has been input into the accounting software with payments only process against budgetary line items. • Action has been taken to institute a process where budget are compared to actual expenditure periodically with significant variances investigated and followed. <p>b) JDs have been developed for all members other than the programme coordinators.</p> | | | |
| <p>Recommendation 5 (Requires attention)</p> <p><i>(a) In order to strengthen the control environment within which the programs are being implemented, the PR should ensure that its policies and procedures adequately address the risks identified in the control environment within which the grants are</i></p> | <p>PR1</p> <p>a. Financial Regulations of government of Sri Lanka and circulars are addressing associated risk in control environment.</p> <p>b. Data security policy has been implemented. All staff has signed Data Security Policy. Backups systems are in</p> | <p>Project Director, all PRs, Project Accounts Computer</p> | <p>Completed</p> | |

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| Recommendation | Country Response and Action Plan | Responsible Person | Expected Completion Date | OIG Comments (where applicable) |
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| <p><i>implemented and provide adequate guidance to all stakeholders involved in program implementation.</i> <i>(b) The PR should set aside a secure internet and file server separate from the other personal computers used by program staff. Backups should be taken and copies kept off site. The PR should also improve the archiving system to ensure that the supporting documents are referenced and filed properly.</i> <i>(c) The PR should prepare cash forecasts to support applications for disbursements to the Global Fund. The PR should demonstrate that the amount requested is based on its reasonable cash flow needs for the upcoming period.</i></p> | <p>place. Necessary actions were initiated for internet and e mail server. Actions were taken to strengthen the document archiving systems. c. Noted and rectified.</p> <p>PR2 - Not relevant</p> <p>PR3 a) Some of the components of the recommendations already implemented some of them are planning to implement b) System backups are already available, policy decision to be taken regarding the backing up of supporting documents c) Prior to the last PUDR forecasts were based on gross quarterly budget, from the last PUDR activity wise detailed forecasts are taken in to consideration.</p> | <p>programmer Project Accountants PD/FM/PM</p> | <p>Completion of the Implementation will depend on availability of funds from???. 31st January 2012</p> | |
| <p>Recommendation 6 (Requires attention) <i>All PRs should strengthen asset management by undertaking physical verification of assets and updating records accordingly, tagging assets with unique identification numbers, having comprehensive fixed asset records in place etc.</i></p> | <p>PR1 Asset Management System was implemented in order to capture the gaps. Physical verification was carried out and asset numbers was posted for assets belong to project office. Necessary actions were taken to ensure physical existence of assets belongs to regional /district office. Reference to point 'c' to the section 58 , 17 vehicles (15 Double cabs ,1 lorry and 1 micro bus) were recorded in assets register (Excel version) of MOH .(Please refer attachment 1 to the management comment)</p> | <p>All PRs, Project Accountants</p> | <p>At Project office - completed District offices - December 2011</p> | |

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| | <p>PR2 Fixed asset Registers have been reviewed with physical verification and tagging has been redone to correspond with the asset register. The process is monitored continually for adherence.</p> <p>PR3 Assets register has been completed and updated. Steps been implemented to get the physical verification done by a third party.</p> | <p>Financial Controller</p> <p>FM</p> | <p>Completed</p> <p>30th Sep 2011</p> | |
| <p>Recommendation 7 (High priority) <i>(a) Reconciliations should be prepared between (i) the financial records and the PU/DRs; and (ii) Treasury records and the program records with any variances justified. The reconciliation should be verified by the LFA.</i> <i>(b) Inter grant borrowings should not occur because they can interrupt program implementation. The inter grant borrowings should be refunded with immediate effect. This should be verified by the LFA.</i></p> | <p>PR1 Para 60 draft report (65 Final report): Reasons for the difference:</p> <ul style="list-style-type: none"> • Finance statements are prepared for the calendar year and PUDR periods are different from grant to grant. • Direct transfers were not included in finance statement, since no cash movement involved with Ministry bank account . However PUDR includes direct transfers. • Advances are accounted based on accrual basis therefore expenses get debited when advances are settlement. However PUDR reporting is based on cash basis. • Financial statements include taxes whereas PUDR not includes taxes. <p>Para 61 draft report: Cash Balance Treasury department balance- US \$ 1,225,023 Balance as per our records -USD</p> | <p>Project accountants</p> <p>Project accountants</p> | <p>Completed</p> <p>Completed</p> | |

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| | 1,312,947 87,924 Difference may caused due to exchange rate PR2 - Not relevant PR3 - Not relevant | | | |
| <p>Recommendation 8 (Significant) (a) The PR should implement the recommendations from external audit reports that remain outstanding. (b) The PR should consider establishing an internal audit function to review SRs and program implementation in the regions.</p> | <p>PR1 a) Recommendations are implemented then and there .Programme advance need to be given to speed up the project activities and meet said target as per the agreed time line. b) SR expenses and regional expenses are closely monitored by GFATM Project office. In addition each regional offices and SR has independent external audit function. External auditor of PR reviews SR expenses and regional expenses too. LFA also do periodic review on SR and also PR’s regional expenses with PR’s review.</p> <p>PR2 - Not relevant PR3 - Not relevant</p> | <p>PRs, Project Director, Project accountants PRs</p> | <p>completed Not relevant to PRs as there are no SRs currently. If SRs available in future will be adhered</p> | |
| <p>Recommendation 9 (Significant) (a) The PR should strengthen its monitoring of program advances. All advances should be settled before subsequent advances are made. All outstanding advances should be</p> | <p>PR1 a) Consideration already made to limit advances given and speed up advance settlement process. These advances are given for different purposes so that activity</p> | <p>Project Director , all PRs, Project Accountants</p> | | |

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| <p>cleared and recovery initiated in case of failure to liquidate the advances. (b) The Global Fund should provide written authority prior to incurring any expenditure before the grant start date. The PR should also ensure that all payments are supported with appropriate third party supporting documentation. (c) The PR should refund the costs for items not in the budget i.e. US\$ 592,023 to ensure funds are available to finance activities included in the approved budget. (d) The PR should strengthen the asset management function by reallocating the 12 motor cycles to Global Fund program related work.</p> | <p> durations are varying. Also preventing advances will affect performance based funding.</p> <p>b. These expenses are related to project implementation and directly hit for timely functioning of the project. Subsequent approval was obtained via PUDR .</p> <p>Para 65 a. Instances of unbudgeted purchases S.No 1- CCM 72-approval available 2- CCM 71-approval available 3-During that period Hon. Minister has exclusively use this vehicle to inspect the public health activities in north east including Malaria, TB & HIV 4-It’s under activity 1.5.3 of the budget 5- CCM 72-approval available 6-Microscopes were purchased to train Health Assistant to send war affected areas for Malaria</p> <p>Purchase of vehicles in excess of the budgeted amount</p> <p>S.No 1-Budgeted for 2 vehicles for USD 49800, however could be able to procure only one vehicle for USD 42,224 with the available market price.</p> | <p>Project Director , all PRs, Project Accountants</p> <p>Project Director , all PRs, Project Accountants</p> | <p>completed</p> | |

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| | <p>2-Budgeted for USD 30,000 but Jeep could be able to procured for USD 49,865 with the available market price and balance utilized with the savings from other activity.</p> <p>3-Budgeted for 4 double cabs and 2 jeeps for USD 125,000.However could be able to procure 4 double cabs for USD 170,907 with the available market price and balance utilized from saving from other activities.</p> <p>4- Budgeted for 6 double cabs and 1 lorry for USD 207,500.However could be able to procure 6 double cabs for USD 287,237 with the available market price and balance utilized from savings from other activities.</p> <p>5- Budgeted for 4 double cabs USD 70406.However could be able to procure 6 double cabs for USD 287,237 with the available market price and balance utilized from savings from other activities.</p> <p>6-Budgeted for 9 vehicle in Y1 for USD 221,053 and 10 vehicles in Y2 for 250,053 and procured 15 vehicles for 285,414, this is with in the budget.</p> <p>b. GFATM project paid staff related cost of the staff who were recruited for CCM secretariat after obtaining approval from Global Fund, subsequently CCM reimbursed Rs.384,348.42 in July 2010.</p> <p>c.Instances of Grant funds used to pay taxes</p> | | | |

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| | <p>and duties S.No 1- Funds were already deducted from GF 2- Can recover from government 3- Can recover from government 4- Can recover from government 5- Can recover from government 6- Can recover from government 7- Can recover from government 8- Can recover from government 9- Can recover from government 10- Can recover from government</p> <p>Reference to section 65 d(70 d Final report), transfer of fund was carried out for urgent requirement that observed in disease and this has now been reimbursed. d. GF funds are to strengthen the national programme .Said staff are working for MOH and support to the TB national programme.</p> <p>PR2 - Not relevant PR3 - Not relevant</p> | Project Director , all PRs, Project Accountants | completed | |
| <p>Recommendation 10 (Significant) <i>MOH&N's management of its SRs should be strengthened by:</i> <i>(a) undertaking capacity assessments for proposed SRs. The PR should consider instituting alternative measures to ensure performance other than obtaining a performance bond or bank guarantee e.g. performance based funding.</i></p> | <p>PR1 a. The MOH currently has initiated a new policy under which capacity assessment of SR will be done. However government Financial Regulations requires to obtain a performance guaranty as security against all government fund advance to SR. Stringent monitoring of all future fund on SR will be carried out by MOH project office.</p> | PR and Project Director | Completed and adhered | 79 (b) has been revised |

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| <p><i>(b) establishing a comprehensive grant management procedures that covers disbursement and accountability; programmatic and financial reporting (including formats); budget tracking and analysis; maintenance of accounting records; assets management including inventory management; charging of administration and overhead costs, procurement policies etc. Reference to this manual should be made in the grant agreement that SRs are obliged to comply with.</i></p> <p><i>(c) Improving SR monitoring. A comprehensive review of SR expenditure should be undertaken in line with the approved budgets and work plans. All outstanding reports from SRs should be followed up. The PR should also formally close out all sub grants that have expired.</i></p> <p><i>(d) Recovering all unsupported and ineligible expenditure from SRs.</i></p> | <p>b& c. Grant implementation has been draft and circulated to CCM membership follow adaption by CCM. All SR related activities will be regulated as per grant implementation manual.</p> <p>d. Tax expenses were authorized by FPM of Global fund.</p> <p>PR2 - Not relevant PR3 - Not relevant</p> | <p>CCM</p> <p>PR</p> | <p>completed</p> <p>completed</p> | |
| <p>Recommendation 11 (High priority) <i>The PSM management and planning function should be strengthened by appointing appropriately qualified staff to the procurement function; and developing and implementing procurement manuals for the</i></p> | <p>PR1 Appointment of Procurement Officer already had been done subsequent to OIG visit .All procurements are been carried out as per procurement guideline of Government of Sri Lanka.</p> | <p>Procurement specialist</p> | <p>completed</p> | |

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| <i>PR in line with GOSL regulations and Global Fund policies.</i> | PR2 - Not relevant PR3 - Not relevant | | | |
| <p>Recommendation 12 (High priority)</p> <p><i>(a) The country should undertake a cost benefit analysis and develop specifications for nets that would suit the beneficiaries at a reasonable cost. The quantification for LLINs should also be revisited.</i></p> <p><i>(b) The quantification process for RDTs should be strengthened. A computerized MIS system should be instituted at both central and regional offices as already indicated in the PSM plan for Malaria grants.</i></p> | <p>PR1</p> <p>a. A user preference survey has been conducted and current procurement of LLINs is based on this survey. Internal displaced population has been already resettled and provide with LLINs.</p> <p>b. Quantification process of RDTs and other lab items are been strengthen and computerized MIS system of laboratory stocks, other products is to be implemented at AMC.</p> <p>PR2 - Not relevant PR3 - Not relevant</p> | <p>PR</p> <p>PR</p> | <p>Completed</p> <p>December 2011</p> | |
| <p>Recommendation 13 (Significant)</p> <p><i>The procurement related conditions in the grant agreement should be complied with. Specifically:</i></p> <p><i>(a) The PR should ensure that the Global Fund has approved the PSM plan prior to committing grant funds for procurement. The PR should ensure that the information furnished in the PSM plan is complete and accurate;</i></p> | <p>PR1</p> <p>a. This has already been complied with.</p> <p>b. Members of procurement committee are obliged to sing declaration of conflict of Interest.</p> <p>c. PQR system is updated with necessary information and LFA reviews it.</p> <p>d. Already in place.</p> <p>e. Extend of coverage of advertising is determined by National Procurement Guideline. Large procurement such as</p> | <p>PR</p> <p>PR</p> <p>Procurement Specialist/PR</p> <p>Procurement Specialist/PR</p> <p>PR</p> | <p>Completed</p> <p>Completed</p> <p>Completed</p> <p>Completed</p> <p>Completed</p> | |

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|---|--|---------------------|--|---------------------------------|
| <p>(b) <i>Members of procurement related committees should disclose if they are conflicted before any procurement is undertaken;</i></p> <p>(c) <i>The PR should record all procurement related information in the PQR system. This information should be verified by the LFA; and</i></p> <p>(d) <i>Proper documentation should be maintained in support of all procurements;</i></p> <p>(e) <i>The PR should extend the extent of coverage of advertising for international bids.</i></p> | <p>LLIN has been submitted to the VPP process of Global Fund.</p> <p>PR2 - Not relevant PR3 - Not relevant</p> | | | |
| <p>Recommendation 14 (Significant)</p> <p>(a) <i>After each net campaign, the PR should reconcile its stock of nets as a control over loss of nets.</i></p> <p>(b) <i>The PR should update its records on a timely basis. The PR should conduct periodic physical verification of stocks and should reconcile the physical stock to the records.</i></p> <p>(c) <i>Particular attention should be given to slow moving stock and stock expiry dates to ensure that the stock does not expire.</i></p> <p>(d) <i>The PR should ensure that warehouses are clean and dry and drugs are maintained within acceptable temperature limits (with air conditioning as appropriate). The PR should install fire extinguishers in all the stores.</i></p> | <p>PR 1 A, b, c,) Necessary steps were already in place to strengthen the stock management and verifications. Also consideration was given maintain acceptable condition of stores.</p> <p>c) Refurbishment of main store complex is planed and under way.</p> <p>PR2 - Not relevant</p> | <p>PR</p> <p>PR</p> | <p>Completed and on going</p> <p>Refurbishment process started</p> | |

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| | PR3 - Not relevant | | | |
| <p>Recommendation 15 (Significant) <i>The Global Fund's quality assurance requirements should be complied with. Specifically samples should be taken along the whole supply management chain and tests undertaken in a WHO recognized laboratory.</i></p> | <p>PR 1 This is already done under the provision of VPP.</p> <p>PR2 - Not relevant PR3 - Not relevant</p> | PR | Comply | |
| <p>Recommendation 16 (High priority) (a) Reconciliations should be prepared between the financial records and the PU/DRs with any variances justified. The reconciliation should be verified by the LFA. (b) The PR should refund all inter grant borrowings i.e. the US\$ 167,671 lent to the TB program. The PR should also reimburse monies lent to other grants for non-program related work i.e. the US\$ 87,291 lent to the MOH&N and to AMC for US\$ 45,518. (c) Bank reconciliations should be prepared for all bank accounts. Open items should be identified and resolved. A periodic physical verification of petty cash and blank cheque books should be performed and documented by a person independent of the cashier. All transactions must be recorded in the system immediately after a payment is effected.</p> | <p>PR 1 - Not relevant PR 2 - Not relevant PR 3</p> <p>a) Been implemented from round 8 PUDR as at 31st March 2011. b) USD 167,671 lent to TB programme I. Since this payment was made on the advice of the LFA and the expenditure of this amount is reflected in the TB grant. It can be treated as actual project expenditure under TB component. II. The amount of USD 87,291(LKR 10,000,000) lent to MoH & N - this amount was paid to MoH as a loan to be given to the NPTCCD- GFATM project on the request of Director, NPTCCD with approval of FPM/GF was subsequently returned to the account number 1190008195. Thus this has been already settled. AMC USD 45,588 - This</p> | FM/LFA | comply | |

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| | <p>amount which was a savings of PR2 round 1 phase 2 malaria grant was transferred to AMC to overcome shortfall of cash situation and used for PR1 round 1 malaria activities on the instruction of FPM/GF.</p> <p>c) Has been taken note of and action had been taken to comply with this recommendation.</p> | | | |
| <p>Recommendation 17 (Significant) <i>(a) The PR should ensure that grant funds are used solely for the program purposes. Amounts paid to the MOH&N (US\$ 3,871) should be recovered.</i> <i>(b) The PR should provide justification for the basis for charging “rent” for storage and distribution charges to district coordinators. These charges should be reviewed by the LFA and if found to be unreasonable should be refunded.</i> <i>(c) The double charge for salaries amounting to US\$ 12,640, salary payments prior to grant signature amounting to US\$ 1,388, and excess salary paid (US\$ 3,690) should be recovered.</i> <i>(d) Controls should be instituted to ensure that all vehicles financed by the Global Fund are used for program related activities.</i> <i>(e) All payment vouchers and supporting documents should be stamped “paid” once the payments have been effected.</i></p> | <p>PR 1 - Not relevant PR 2 - Not relevant PR 3</p> <p>a) Both the payments are considered programme related as approved by FPM/GF. b) Storage & distribution charges are reasonable. Details of which have been made available to the LFA. c) Originally when we signed the grant agreement the starting date stated in the agreement was 1/9/2007. PR started implementation of project activities from this date. The first disbursement was received by the PR in December, 2007. By the implementation letter No.2 dated April 2008 the start date was advanced to 1/1/2008. Thus it was 7 months after the implementation had taken place the start date was advanced by 4 months. Thus it is not correct to consider the payment made during these 4 months as pertaining to the period prior to grant start date. d) 1. Action has been instituted &</p> | <p>Project Director, Sarvodaya</p> | <p>This will be complied with</p> | <p>OIG suggests Sarvodaya to provide supporting documentations to LFA for (a) and (c) for further verification.</p> |

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|--|--|-------------------------|---------------------------|---------------------------------|
| | <p>completed.</p> <p>2. The programme was provided with an additional vehicle by LJSSS to be used exclusively for programme activities. By making the above arrangement PR was able to obtain the services of two vehicles in place of one which was provided by the GF.</p> <p>e) Action taken all payment vouchers are now stamped with “paid” once payments are being affected.</p> <p>The OIG suggests Sarvodaya to provide supporting documentation to LFA for (a) and (c) for further verification</p> | | | |
| <p>Recommendation 18 (Significant)</p> <p><i>(a) The process for the selection of SRs should be clearly stipulated. The process should be undertaken in line with laid down policy and clearly documented. Decisions to appoint SRs should be made after capacity to implement is assessed. All SRs should comply with the sub grant agreements e.g. maintenance of separate bank accounts.</i></p> <p><i>(b) The PR should strengthen the existing SR monitoring system for effective monitoring of SR performance. All outstanding reports and accountabilities should be followed up. All expenses without adequate supporting documents should be reimbursed by the PR.</i></p> <p><i>(c) The PR should refund the unutilized</i></p> | <p>PR 1 - Not relevant</p> <p>PR 2 - Not relevant</p> <p>PR 3</p> <p>a) Noted and now being strictly adhered in Round 8 & 9.</p> <p>b) Noted and now being strictly adhered in Round 8 & 9.</p> <p>c) Will be refunded with the Round 1 closure activities.</p> | <p>PD/PMs</p> <p>FM</p> | <p>On request from GF</p> | |

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| <i>US\$ 14,490 balance that remained outstanding at the end of the Round 1 grant.</i> | | | | |
| <p>Recommendation 19 (Significant) <i>The SRs should strengthen the internal controls within which program activities are implemented. Specifically:</i> <i>(a) The unreconciled balances in the bank reconciliations should be investigated and resolved.</i> <i>(b) All significant budget reallocations should be with the PR's prior approval.</i> <i>(c) All outstanding advances should be accounted for or recovered from the relevant entities.</i> <i>(d) A periodic physical verification of petty cash and blank cheque books should be performed by a person independent of the cashier.</i> <i>(e) All procurements should be undertaken in accordance with the GOSL procurement law.</i> <i>(f) The SRs should award contracts in a transparent and competitive manner. Appropriate documentation should be maintained for every purchase made using grant funds.</i></p> | <p>PR 1 - Not relevant PR 2 - Not relevant PR 3 a) Noted and action has been taken to resolve. b) Noted and will be adhered to c) Noted and will be adhered to d) Noted and will be adhered to e) Noted f) Noted</p> | <p>FM PD & CCM FM FM FM/PM PD</p> | <p>currently being implemented</p> | |
| <p>Recommendation 20 (Significant) <i>The PSM management function should be strengthened by appointing appropriately qualified staff to the procurement function; and developing and implementing</i></p> | <p>PR 1 - Not relevant PR 2 - Not relevant PR 3 Steps will be taken to appoint qualified staff for procurement functions.</p> | <p>PD/PM/FM</p> | <p>once budgetary</p> | |

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| <i>standardized procurement manuals for the PR in line with GOSL regulations and Global Fund policies.</i> | Procurement manual will be developed. | PD/FM | allocation are sorted out with GF 31 st Dec 2011 | |
| <p>Recommendation 21 (Significant) <i>The procurement related conditions in the grant agreement should be complied with. Specifically:</i> <i>(a) The PR should only procure WHOPEs recommended LLINs in accordance with Global Fund policy;</i> <i>(b) The PR should record all procurement related information on the PQR. This should be verified by the LFA;</i> <i>(c) PR should maintain a purchase register to record all purchases made and keep detailed records indicating receipt and use of goods and services, the nature and extent of solicitations of prospective suppliers of goods and services acquired and the basis of award of contracts and orders; and</i> <i>(d) Proper records should be maintained in support of all procurements.</i></p> | <p>PR 1 - Not relevant PR 2 - Not relevant PR 3 a) Noted and will comply with b) Noted and will comply with c) Noted and will comply with d) Noted and will comply with</p> | PD/PM/FM | | |
| <p>Recommendation 22 (Significant) <i>The PR should maintain proper inventory records to track receipt and issue of bed nets. A process for periodic physical verification of inventory, management reporting and reconciliation of bed nets</i></p> | <p>PR 1 - Not relevant PR 2 - Not relevant PR 3 Noted and will comply with</p> | PD/PM/FM | | |

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| <i>procured, distributed and in-stock should be introduced.</i> | | | | |
| <p>Recommendation 23 (Significant) <i>The PR should strengthen the internal controls within which the program activities are being implemented by:</i> <i>(a) Preparing bank reconciliations for all bank accounts maintained. The unreconciled balances in the bank reconciliations should be investigated and resolved.</i> <i>(b) Maintaining appropriate supporting documentation to support all expenditure incurred. All ineligible expenses paid using grant funds should be refunded to the program:</i> □ <i>Administrative expenses for Program Director’s residence for US\$ 3, 036;</i> □ <i>Overpayment to the consultants for US\$ 10,917;</i> □ <i>Overpayment for travel expenses for US\$ 1,490;</i> □ <i>Unrecorded fees collected from sale of tender documents for US\$ 200; and</i> □ <i>Unrecorded interest amounting to US\$ 524.</i> <i>(c) Stamping all payment vouchers and supporting documents “paid” once payments have been effected.</i></p> | <p>PR 1 - Not relevant PR 2 a. All bank accounts are reconciled monthly b. Please see points below: • This expense was incurred on account of security provided at the Registered Office of TEDHA Pvt Ltd. The Office has been in existence since inception of the Company and continued through the period of the OIG’s audit. The sum of \$3046 has been reimbursed to the dedicated account for GF transactions. Subsequently since May 2010, 15% of the security charges are charged to the program. The justification is that important program related documents are kept under safe custody at this office in addition to all supportive work provided by the Program Director during non working hours • In the initial period of the contract all the consultants worked numerous hours for planning and implementation, under the supervision of the Program Director, and a rigid requirement to monitor hours worked was not in force at that time. Once the system was regularized all hours are reported and payments made accordingly on receipt of the report. There is no way to reconcile the hours worked resulting in the \$10,917.</p> | PR 2 | | |

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| | <ul style="list-style-type: none"> • The travel expenses stated was in respect of the visit to attend the Hyderabad GF conference. The overpayment was adjusted when the initial advance payment was reconciled with the total amount spent. The overpayment was refunded to the program in March and April 2010. • At the time of crediting the \$ 200 for the sale of tender documents no bank account was opened and TEDHA’s HSBC Corporate Account was credited. On 30 March 2010, the amount was transferred to the Program account. • \$524 as unrecorded interest has been referred to above under Recommendation 1 (e) and Response • Please see Recommendation 3 and Response under paragraph 50 page 12. • TEDHA now has internet access to all Hatton National Bank district accounts and HSBC accounts. All bank reconciliations are done monthly to ensure accurate cash book accounting. • TEDHA has notified though slightly delayed the appointment of external auditors Messrs Ernst & Young, Colombo and agreed with the Secretariat. • The interest on loans taken by TEDHA prior to the commencement was directly related to the initial preparations for the program activities in consultations with the Fund Portfolio Manager (FPM) and claimed after | | | |

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| | <p>obtaining approval from the FPM and LFA.</p> <ul style="list-style-type: none"> • The advances made to staff and vendors are now recorded in advance account and reconciled periodically. There is no difference noted to date in the advance account. • All program expenditure is incurred with proper authority and supporting documents. More rigid control is exercised over all payments after the OIG's audit in early 2010 <p>PR 3 - Not relevant</p> | | | |
| <p>Recommendation 24 (Requires attention) <i>TEDHA should strengthen PSM related controls. Specifically,</i> <i>(a) The PR should ensure that the Global Fund has approved the PSM plan prior to use of grant funds for the procurement. Procurements should only start once funds are received;</i> <i>(b) TEDHA should use generic descriptions for products and not mention specific brand names in the bids;</i> <i>(c) The PR should record details of all receipts and issues in the inventory register and it should be updated in a timely manner. The PR should conduct a periodic physical verification of inventory and reconcile the results of verification with the inventory records. Variances noted during the</i></p> | <p>PR 1 - Not relevant PR 2 a) The initial procurements (non health) were made under exceptional circumstances and in consultation with the PFM to prepare ourselves on a rapid mode before the signing of the grant. The current practice is in line with this recommendation. b) This is an error on our part and compliance will be assured with subsequent bids. c) TEDHA commencing from 1st October 2010 have introduced a revised inventory management system and trained all relevant staff to ensure accurate accounting and verification process. Under this system monthly inventory verification is conducted at all service points and reported to the head office where the inventory register is maintained. Further,</p> | <p>Program Director/Financial Controller</p> | <p>Completed</p> | <p>GF Secretariat to provide guidance on TEDHA's proposal related to the Vehicles issue</p> |

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|---|--|--|--------------------------|---------------------------------|
| <p><i>reconciliation should be investigated and resolved;</i> <i>(d) Proper documentation should be maintained in support of all procurements; and</i> <i>(e) The PR should broaden the coverage of advertising for international bids.</i></p> | <p>on 31st March 2011 a complete physical verification of all inventories was carried out and the reconciliation is in progress as of date. The differences shall be investigated and resolved as recommended.</p> <p>d) Our payment system requires supporting documents for all procurements though some difficulties are encountered at the district level small ticket procurement where the suppliers are not geared. We are addressing these issues as well.</p> <p>e) we have taken note of this proposal and introduce this in our procurement for reasonable size orders.</p> <p>Recommendation 24 (continued) Pages 36 - 37 paragraphs 142[147] - 149 [154] <u>Procurement and Inventory Management</u></p> <ul style="list-style-type: none"> • A comprehensive procurement and inventory management system supported by Tally inventory management software is in operation. • A separate PSM plan is prepared and approved as opposed to the PSM manual. • A comprehensive procurement system is in operation. <p>Value Added Taxes are applicable in Sri Lanka on trades and imports. TEDHA has no option to avoid this tax. We received approval to incur this tax until such time Global Fund is registered as an exempt organisation for this purposes under the VAT</p> | <p>Program Director/Financial Controller</p> | <p>Completed</p> | |

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| | <p>Act.</p> <ul style="list-style-type: none"> The vehicle is registered in the name of TEDHA (Pvt) Ltd and not in the name of the NGO. A copy of the registration certificate is attached. TEDHA wish to resolve this matter with the Global Fund. The said vehicle has been used for the program activities. The program director is to refund any private usage of the vehicle and clearly above board of its usage. It is also need to acknowledge the fact that the vehicle has been used for district monitoring visits by the program director in all occasions when need arises. Hence the usage cost of the vehicle needs to be charged to the program if there is a requirement for TEDHA to refund the excesses over the budgeted amount. A separate paper was presented to the GF Secretariat few months ago. A copy is attached for information. At this juncture it is also necessary to address if a refund is made to the Program the ownership of the vehicle will become a joint ownership that may cause problems at the time of closure of the project. TEDHA seek advice from LFA and the GF to resolve this matter on an urgent basis. The inventory stores are now developed with adequate security arrangement. The inventory records are now maintained appropriately with the recommendation. <p>PROPOSAL ADDRESSING THE VEHICLE ISSUE</p> | | | |

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| | <p><u>(OIG'S DRAFT REPORT DATED 29TH MARCH 2011 (GF-OIG-10-006)</u></p> <p>Our proposal refers to the draft OIG's report dated 29th March 2011 for settling the excess expenditure over the budget and to source a suitable vehicle within the budgets provided for the purchase of vehicles for implementation of the objectives of the grant.</p> <p>Settlement of US\$ 65,878.00</p> <ul style="list-style-type: none"> • We propose to dispose of the Montero four wheel drive vehicle purchased for US\$ 115,878.00 in a transparent manner to get the best possible price. • Any difference between the purchase value (US\$ 115,878.00) and the sales value would be refunded to the program account subject to reasonable consideration for the usage / wear and tear of the vehicle in the project from November 2009 (purchase date) and the date of the management letter to TEDHA notifying the expected refund i.e. 6th December 2010. It is reasonable to assume 20%p.a depreciation rate for wear and tear for usage of the vehicle. • We propose to the Global Fund to grant TEDHA a period of three years to payback any difference between the purchase value and the realized sales value. <p>We trust that this proposal would be useful to resolve the OIG's findings, comments and</p> | | | |

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|----------------|---|--------------------|--------------------------|---------------------------------|
| | <p>recommendations for the vehicle procurement. We also hope it will facilitate the practical needs of the program to successfully move forward and continue to achieve its target.</p> <p>Purchase of a vehicle for project use within permitted budget</p> <p>TEDHA wishes to continue strongly as a successful program oriented institution. We will not jeopardize our achievements in the program thus far and the current accelerated pace for continued achievement of targets towards overall National Elimination of Malaria. Hence, it is necessary to have a reliable and comfortable four wheel drive vehicle operating out of Colombo for the program. We therefore propose the following</p> <ul style="list-style-type: none"> • TEDHA proposes to purchase a replacement vehicle with immediate effect after the sale of the existing vehicle. This will be in accordance with your concurrence and recommendations. It will be within the approved budget for the vehicles. • In the approved budget for Phase I, we had allocated 5 vehicles for field operations and one four wheel drive for Colombo. As of now, we have utilized US\$ 107,107.54 for purchasing four second hand vehicles for field operations out of the budget provision of US\$ 164,912.00 for 4 vehicles. Hence there is a savings of US\$.57,895.00. Please note that we have not purchased the 5th vehicle for the field operation. The | | | |

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| | <p>budgeted figure is adjusted for the four vehicles proportionately.</p> <ul style="list-style-type: none"> • Please note that TEDHA had originally proposed and had budgeted US\$ 90,000 for a four wheel drive vehicle for Colombo. Subsequently, this was reduced by TGF jointly with LFA during their visit in July 2009 (Ms Tsovinar from GF and Ms Nilakshi, et al from LFA were involved in this exercise to reduce the budgets and specific line items). It is our considered view that the allocated budget for a brand new vehicle as the result of the cut is far from reality. • In this background we propose to utilize the budget of US\$ 50,000.00 and the surplus of US\$ 57,895 from the allocation for field operation reprogrammed towards the purchase of a Colombo based for wheel drive vehicle. <p>Proposal addressing the Vehicle Issue (OIG's Draft Report dated 29th March 2011) TEDHA would appreciate a response to the proposal submitted addressing the Vehicle Issue or receive conclusive suggestions from the Secretariat -two years since purchase. TEDHA would also appreciate a ruling on the VAT issue which affects TEDHA. We reiterate that the department of Inland Revenue will not allow for nonpayment of VAT. TEDHA cannot absorb this cost and procurement</p> | <p>Director, TEDHA</p> | | |

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| | <p>cannot proceed without the payment of VAT. To achieve program goals procurement is essential. TEDHA urges the OIG and GF to intervene in this matter.</p> <p>PR 3 -</p> | | | |
| <p>Recommendation 25 (high) <i>(a) With the help of the appropriate technical agencies the Global Fund Secretariat should consider revisiting indicators for low prevalence, low number situations to ensure that they effectively capture program success. For all three diseases the time factor is an important issue between telling. This could be the time between onset of symptoms and start of treatment and/or it could be the time between diagnosis and investigation (as in the malaria example above). Preferably indicators should not only measure the performance of the the health system, but should also give an indication of a populations's awareness regarding the disease concerned. Both are critical. In the case of Sri Lanka it would require coordinated efforts between the PRs. Sri Lanka would be a suitable country for piloting this recommendation.</i> <i>(b) The Global Fund should consider</i></p> | <p>Not relevant to country PRs. A , B & C-GF Secretariat has to be answered</p> | <p>GF Secretariat</p> | | |

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| <p><i>amending its proposal formats to allow countries like Sri Lanka to elaborate in their proposals how additional support is crucial to the national strategy of control, or even elimination to the extent possible. The case of malaria elimination could then be made for what it is: a costly effort in the current time, which, if successful, saves lives and costs in future. A similar case could be made for TB and HIV/AIDS control. In the opinion of the OIG this type of argument would in a country like Sri Lanka be more convincing than the somewhat far-fetched arguments of poverty and disease burden.</i></p> <p><i>(c) Similarly, the Global Fund Secretariat should encourage countries to provide a realistic portrayal of a disease's prevalence and incidence, coupled with a realistic portrayal of the interventions to be undertaken. Over-estimates of the disease burden risk setting unachievable targets and as in Sri Lanka with MDR TB and HIV/TB co-infection.</i></p> | | | | |
| <p>Recommendation 26 (Significant) <i>The program should consider aligning the objectives of the Round 8 grant to the national objectives as stated in the national malaria plan. Since the crisis has ended interventions can now be aligned to country-wide elimination of both P.falciparum and P.vivax. (The OIG noted that the new (draft) Monitoring and Evaluation Plan 2010-2014</i></p> | <p>PR 1- Aligning the objectives of the Malaria Round 8 grant to national objectives had been done already and M & E were already published</p> | <p>Project Director, D/AMC</p> | <p>Completed</p> | |

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| <i>has already done so.).</i> | PR 2 - not relevant PR 3 - not relevant | | | |
| <p>Recommendation 27 (Significant) <i>The national TB program should consider strengthening its second main objective i.e. to interrupt the transmission of TB. Like in the malaria control program, this will involve increasing the program's focus on rapid detection. This important aspect of TB prevention can perhaps be included in existing awareness raising programs.</i></p> | <p>PR 1 - Already TB programme has initiated to screen special high risk groups to enhance detection of cases. Already included in existing awareness programmes</p> <p>PR 2 - not relevant PR 3- not relevant</p> | D/NPTCCD | Completed | |
| <p>Recommendation 28 (Significant) <i>When the Round 6 and the upcoming 9 HIV grants are consolidated to ensure that monitoring of the combined program takes place in the context of a national monitoring plan. This should offer opportunities to address of the shortcomings in the Round 6 proposal including unrealistically high targets and suboptimal awareness raising approaches.²⁹</i></p> | <p>PR 1 -Unattainable targets in Round 6 had been reduced in consolidated grant round 9</p> <p>PR 2 - not relevant PR 3 - not relevant</p> | D/NSACP | Completed | |
| <p>Recommendation 29 (Requires attention) <i>The programs should be designed more strategically and include "out of the box" approaches that make use of existing institutional settings. An example would be to address individual estates as potential</i></p> | PR1 -Now this activity was taken over from SR. PR has started implementing this activity very recently | D/NSACP | Ongoing | |

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| <p><i>catalysts for adoption by entire estate companies and to do this by design in the initial planning, that is: from the outset. Replication at diminishing external cost should then be included as a (self-evident) indicator of long term success.³¹</i></p> | <p>PR 2 - not relevant PR 3 - not relevant</p> | | | |
| <p>Recommendation 30 (Significant) <i>Health Systems Strengthening (HSS) through the Global Fund support should aim for added value and efficiency in a specific way by being „a natural extension“ of the program concerned and not be a separate add-on as is the case with the Round 9 HIV/AIDS grant.³⁴ This recommendation is made also with a view to improving „value for money“ to which the Global Fund subscribes. In the specific case of Round 9 the GF country team will, for example, require engineering expertise. In Sri Lanka execution of the program will be disassociated from implementation of the HIV program. Similarly, the HSS component will not or only minimally contribute to the usual GF indicators of program achievement.</i></p> | <p>PR 1- HSS agreement had signed after TRP review</p> <p>PR 2- not relevant PR 3- not relevant</p> | <p>PD</p> | <p>Completed</p> | |
| <p>Recommendation 31(Significant) <i>For GF Rounds to have research components fulfil a practical requirement, of feeding</i></p> | <p>PR1 -Research components were included in all main diseases which assist to identify Health Systems Strengthening requirements</p> | <p>PD</p> | <p>Ongoing</p> | |

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| <p><i>into project implementation and particularly HSS. For dual and triple track rounds - as for R8 malaria - to do this in ways that feed the entire program, by using the specific strength of each PR (and promote cooperation between PRs). For R8, for example, to use the academic/ research profile of PR TEDHA to help answer research questions regarding sustained and yet affordable malaria (post-) elimination.</i></p> | <p>and experts available in all PR's has been used in research</p> <p>PR 2 - not relevant PR 3 - not relevant</p> | | | |
| <p>Recommendation 32 (Significant) <i>(a) The three programs, especially TB, should consider encouraging programmatic coherence between the public and private sector. The awareness raising programs run in the communities should become more innovative i.e. moving the emphasis from controlling the diseases to increased responsiveness to diseases e.g. early case detection and treatment. The programs should shift their monitoring to the operational level rather than be limited to the current standard format of „numbers of participants attending sessions“. The above should moreover take shape such that the PRs and their SRs must coordinate in order to perform.</i> <i>(b) The CCM should ensure that there is good collaboration between the three programs and encourage programs that bring the various sectors together and which can only</i></p> | <p>PR 1 - a. Already taken into account in writing Round 11 proposal</p> <p>b.CCM has already formulated sub committees and oversight committees, which increases the collaboration of the programs through effective inputs from the committees</p> | <p>D/NPTCCD</p> <p>Chair-CCM</p> | <p>Completed and adhered</p> <p>Completed</p> | |

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|---|--|--------------------|---|---------------------------------|
| <i>succeed when executed together. An example is the „MARPS“ mapping exercise in preparation of Round 9 HIV in which UNAIDS and WHO facilitated.</i> | PR 2 - not relevant PR 3 - not relevant | | | |
| Recommendation 33 (Requires attention) <i>The Global Fund Secretariat to support adaptation of a monitoring system that is future-oriented and that incorporates the lessons of the past, of resurgence of malaria after the goal had been almost reached.</i> | Not relevant to country PRs. GF Secretariat has to be answered | GF Secretariat | | |
| Recommendation 34 (Requires attention) <i>(a) The PRs and the Global Fund should continue to consider the realism of the targets in the performance frameworks. The setting of indicators and targets should reflect what can be achieved and in what areas data can or cannot be accessed. (b) For TB, ideally, data collection itself should be part of a „smart solution“ as in TB Lot Quality Assurance (Box xx refers). (c) Consideration should be given to the fact that some indicators reflect the combined efforts of the PRs and can therefore not be attributed to one or the other.⁴²</i> | PR 1- a. All PR ‘s have set up realistic targets in the performance framework b. noted and taken into consideration c. Noted and taken in to consideration PR 2 - not relevant PR 3 - not relevant | PR, PD | Completed completed Completed | |
| Recommendation 35 (High priority) <i>The Sri Lanka CCM should:</i> | A,b,c,d-This process has started with the | Chair-CCM | November | |

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| <p>(a) implement the conflict of interest policy. Any conflict of interest should be declared by CCM members who should opt out of decision making where such conflicts arise;</p> <p>(b) consider reviewing the current manual in order to strengthen it. The manual should be finalized and operationalized in order to guide the operations of the CCM. The manual should seek to address the causes of the low CCM attendance;</p> <p>(c) consider rotating the chair among the different representative groups; and</p> <p>(d) ensure that all CCM members understand the CCM role, responsibilities and governance tools. A program to train and strengthen the participation on non-governmental representatives on the CCM in order for them to have meaningful participation in the CCM meetings should be implemented.</p> <p>Recommendation 36 (Requires attention) The CCM Secretariat should ensure that minutes of meetings are signed and a copy maintained for the record. The CCM should in collaboration with the development partners develop a fundraising strategy for the CCM Secretariat. The CCM should not borrow program funds for its operations. All funds borrowed should be refunded.</p> | <p>arrival of GMS</p> <p>All the funds borrowed were refunded</p> | <p>Chair-CCM</p> | <p>2011</p> <p>Completed</p> | |
| <p>Recommendation 37 (High priority) (a) The CCM should develop and</p> | <p>This process has started with the arrival of</p> | <p>Chair-CCM</p> | <p>November</p> | |

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| <p><i>communicate the process by which PRs are nominated to be PR. The selection criteria should be fixed and included in the governance manual. Proper documentation should be maintained to support the process followed. The CCM should only guide PRs on the selection of SRs and should not be involved in the process.</i></p> <p><i>(b) CCM oversight should be strengthened by formalizing the role of subcommittees in the draft of the CCM Governance manual. The composition of the CCM subcommittees should be reconsidered in order to increase the participation of non-government constituencies. PRs should report periodically to the CCM on program implementation.</i></p> | GMS | | 2011 | |

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|--|---|--------------------|--------------------------|---------------------------------|
| <p>Recommendation 38 (High priority) <i>The LFA should:</i></p> <p>(a) <i>take a proactive role in advising the Global Fund on the country risk profile to ensure an appropriate scope of work is developed through the Work Orders issued. Specifically the LFA should undertake progressive risk assessment of the grant operating environment and how they plan to respond to the assessed risks. This risk assessment report should be part of the deliverables to demonstrate the LFA understands and appreciates the country context.</i></p> <p>(b) <i>take a proactive and risk based approach when mobilizing resources on Global Fund work. For example the LFA's work should incorporate more frequent pharmaceutical/PSM expertise reviews e.g. at least once a year of at least two weeks to cover all procurement and supply aspects that cut across the three disease programs.</i></p> | <p>LFA:</p> <p>(a)- Risk assessment is progressively performed by the LFA. This is evident in the team composition that there is a full time in-country PSM expert is included and detailed verifications being performed for both procedural as well as VFM compliances. The LFA has been advising the GFATM of the country risks progressively</p> <p>(b)- Extensive desk-top reviews are being performed by the PSM and supported by the in-country JPSM in all pharmaceutical and non-pharmaceutical (LLIN, RDTs and Condoms) procurements. Further, PSM's involvement is there when a PSM plan is submitted by the PR.</p> <p>Further, where there have been CPs to the grants in relation to procurements, extensive reviews have been carried out by the LFA.</p> <p>A mix of significant desk-top reviews coupled with on-site visits has been taken by the taken by the LFA with the concurrence of the GF Secretariat to ensure the optimum usage of the LFA budgets.</p> | | | |

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|--|--|--------------------|--------------------------|---------------------------------|
| <p>Recommendation 39 (Significant)</p> <p>(a) <i>The LFA should consider the entire package of indicators in selecting OSDV sites. They should include under-performing sites as well as prevalence and incidence of the three diseases in selecting sites for OSDV.</i></p> <p>(b) <i>The LFA should also not only assess the correctness of the figures reported, but understand the causes of under-performance and make recommendations for improvement. Such recommendations may include suggestions for improvements on the indicators themselves. This is relevant where it is evident that indicators can in practice not be measured, resulting in mis-representation or non-representation of achievements.</i></p> | <p>LFA</p> <p>(a)- Selection of sites for OSDVs has been done in consultation with the GFATM via e-mail communications. Various criteria have been used for the selection of sites including case load reported and access to healthcare facilities.</p> <p>An onsite visit has been carried out in Colombo on 7 and 8 September 2009 and as a part of the PUDR review. Findings of the visit have been incorporated into the PUDR itself. Further, it is pertinent to note that almost all the TB cases are treated at the government establishments and still the MoH is in the process of establishing a mechanism of capturing cases treated at private establishments. The LFA has not visited eastern and northern parts of the island due to then prevailed security situation. These areas were come under government control and free access was granted to public only recently. Even though eastern part of the country was liberated in 2008, travel was restricted to these areas unless otherwise for very essential needs.</p> <p>It is also pertinent to note that the LFA has</p> | | | |

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|----------------|---|--------------------|--------------------------|---------------------------------|
| | <p>carried out two visits to eastern part of the country (Ampara District) for OSDVs in 2010 under Malaria Round 8 grant</p> <p>(b)- The LFA has been reporting and providing practicable recommendations in relation to non-measurable or unrealistically high targets set in PFs.</p> <p>Extracted below are comments and recommendation by the LFA in relation to TB/HIV related indicators and reported in the MoH TB Rd 6 PUDR submitted on 28 September 2009.</p> <p>1. “Further, the PR had had a meeting with its stakeholders in May 2009, at which the revision of this indicator to reflect a more realistic number was discussed. The target discussed was for 125 PLWHA to be screened at the end of Year 2 of Phase 1 (no quarterly targets decided). The PR informed the LFA that this revision had been conveyed to the GF Delegation during their visit to Colombo in July 2009. However, in the absence of formal approval from the GF pertaining to this downward revision of the target, the LFA has based its review on the targets set in the original Agreement for this Round. Further,</p> | | | |

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| | <p>the LFA understands that the PR has considered a revision to this indicator without giving due consideration to national level statistics, and that, as such, further revisions to this target may be necessary.”</p> <p>2. “The NSACP has informed the PR that there is no policy to treat patients with latent TB infection in (INH) and accordingly the national level statistics are not maintained at the NSACP.</p> <p>Further, the revision of this indicator to reflect a more realistic number had also been discussed at the meeting held in May 2009. The target discussed was for 3 newly diagnosed HIV positive people to be given treatment of INH by the end of Year 2 of Phase 1 (no quarterly targets decided). The PR informed the LFA that this revision had been conveyed to the GF Delegation during their visit to Colombo in July 2009. However, in the absence of formal approval from the GF pertaining to this downward revision of the target, the LFA has based its review on the targets set in the original Agreement for this Round.”</p> <p>It is also pertinent to note that the LFA</p> | | | |

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| | <p>recommendations in relation to impracticable indicators in SRL-607-G07-T and SRL-607-G09-H have been considered during the phase 2 extension decisions by the GFATM by agreeing to targets to more realistic targets as suggested by the LFA.</p> | | | |
| <p>Recommendation 40 (Requires attention) (a) <i>The Secretariat should establish a mechanism for the tracking and following up recommendations arising from its missions and the LFA reviews.</i> (b) <i>All approvals should be in line with the grant agreement and where there are contraventions, appropriate authority should be obtained within the Secretariat, with appropriate measures taken to mitigate any risks that may arise. All Secretariat approvals should be in writing.</i></p> | | | | |

Annex 4: Breakdown of the unsupported and ineligible expenditures

| Exception Category | MOH&N | | Sarvodaya | | TEDHA |
|--|------------|-------------|------------|-------------|------------|
| | Ineligible | Unsupported | Ineligible | Unsupported | Ineligible |
| | in US\$ | | in US\$ | | in US\$ |
| Overspend over budget | 371,643 | | 6,063 | | 65,878 |
| Expenses that are not program related | 33,772 | | 32,389 | | 15,443 |
| Unsupported expenses | | 186,681 | | 795,349 | |
| Total expenses charged prior to grant start date | 3,459 | | 3,690 | | 3,538 |
| Total payment of Taxes and Duties out of grant Funds | 193,849 | | 4,759 | | |
| Total interest receipts not credited to the Grant | | | | | 724 |
| Charge to the Fund for use of own assets | 1,781 | | 6,773 | | |
| Inter-grant transfers | 616,241 | | 305,124 | | |
| | 1,220,745 | 186,681 | 358,798 | 795,349 | 85,583 |